

# What Analysts Need and Companies Provide

A survey on  
Corporate Disclosure

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In co-operation with members of:



# Thanks!

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## 1. Introduction

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“What Analysts Need & Companies Provide” is the title of this paper, and refers to what Socially Responsible Investment (SRI) analysts require and companies offer, in terms of corporate disclosure. Corporate disclosure in this context, includes social, environmental and corporate governance reporting, which all reflect important sustainability issues. The availability of such information is a critical issue for those involved in research and analysis. While corporate governance disclosure by tradition has been more or less readily available, the other two aspects have just over the last decade become of interest within the investor community.

The trends and patterns of corporate disclosure inevitably vary around the world, and between different sectors. Geographic differences (whether cultural, political, legal and/or socio-economic), as well as market competition and demands from stakeholder groups, act as drivers for, or have a restraining influence on disclosure of social and environmental information. The aspect of mandatory and voluntary reporting should be emphasized, as this affects the level of disclosure considerably. For example, in Sweden it is provided by law (hence mandatory) that a company with operations that need some kind of legal permit from environmental authorities, also have to describe its key environmental issues in the annual report. However, within this framework of legislation, we can also see how different industries 'voluntarily' have established their own standards of reporting. If we look, for example, at the Swedish paper & forestry companies, it becomes obvious that these are keeping a close eye on, and to some extent even co-operate with their competitors, when it comes to environmental reporting. This is an industry, which has a long history of stakeholder concern around all of our most severe environmental problems – emissions, resources, biodiversity etc. Other sectors, such as Swedish banks, have just recently started to report on environmental issues, mainly due to other stakeholder demands. Similar patterns can be seen internationally, within the framework of geographic and sectoral differences.

Social disclosure is not to the same extent stipulated by law, although there are many other stakeholders concerned, such as human rights organisations, the media, the unions etc. It should be noticed, though, that what is referred to as 'social' in this context, is actually a set of relatively diverse aspects, such as the company's relation to its employees, contractors, customers, and the community. The disclosure of *parts* of these issues is regulated by, for example, legislation around equal opportunities, discrimination, labour rights and quality.

Although the drivers for corporate disclosure might seem more or less vague, in the Nordic countries we can nevertheless see a trend that those companies with a history of environmental reporting, tend to continue with social disclosure, into what is often called a 'Sustainability Report'. An even stronger trend is that investors around the world get increasingly concerned about Corporate Social Responsibility issues, either as part of an SRI-strategy, or of a more traditional risk and TQM<sup>1</sup> assessment. Therefore the demand for correct and relevant information is growing continuously.

SRI-analysts are probably the ones most aware of, and affected by, the current situation of so far relatively inconsistent and fragmentary reporting in this area. Therefore we wanted to make a survey around this issue, among a number of well-established SRI-analysts internationally, and share our experiences within the SRI community, as well as with companies.

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<sup>1</sup> Total Quality Management

The survey was carried out within the SiRi Group<sup>2</sup>, an international network of SRI-analysts. SiRi has developed a common format for compiling of corporate information – the SiRi Global Profiles. Therefore the SiRi Group was regarded as a good forum for comparison and exchange of experiences. Finally, as a reference to analysts' perspective, four Nordic companies were asked about drivers for corporate disclosure, investors as a target group for reporting and their experiences of SRI-analysts.

## 2. Summary of Observations

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### Part 1 – Analysts' Perspective

- Companies most readily disclose information concerning Corporate Governance and Environmental issues, the areas most regulated by law.
- Companies are most unlikely to disclose information on Contractors and Community.
- Companies are more likely to disclose qualitative than quantitative information.
- The difference between individual companies SRI-reporting is probably more significant than the difference between sectors.
- It is possible that other factors (size, regulations, visibility, organization, resources) of a company are more important for SRI-reporting than the sector it belongs to.
- Sectors that face a high social- and environmental risk are more prone to good reporting.
- Companies keep an eye on competitors, and market leaders might influence an entire sector on SRI-disclosure.

### Part 2 – Companies' Perspective

- Investors' status as a target group for Corporate Disclosure varies between companies ('pioneers' and 'beginners'), and between environmental and social issues.
- There are indications that investors have an important role to play in the development and propagation of *full* Sustainability Reporting.
- Companies see several benefits and connections to profitability in good Corporate Disclosure.
- Official reporting is not always considered the most efficient mean of communication with investors.
- The current SRI-analyses are generally of relatively high quality, according to companies, but there is still potential for improvements.

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<sup>2</sup> Sustainable Investment Research International: [www.sirigroup.com](http://www.sirigroup.com)

## **Do companies provide what analysts need?**

Limiting "analysts" in the heading to members of the SiRi Group and "need" to information included in the SiRi-profile, it can be concluded that clearly the need for information is greater than what companies provide today. This is most notable for social issues and areas that lie somewhat outside of a company's immediate economic interests. Community engagement and monitoring of contractors' compliance with labour standards are areas for which reporting may be lagging behind as compared to the more legally regulated area of environment. Another problem for analysts is the lack of qualitative information: statistics. Most companies today have not established administrative routines to collect and compile social and environmental data for the whole company group. This is especially true for social statistics (rate of absence, accidents, etc). Providing comprehensive statistics for the entire company group will be a challenge as companies are becoming more and more decentralized and global.

Although it is tempting to believe that investors' growing concerns about sustainability issues form an important incentive for the development of more extensive Corporate Disclosure, the survey shows that this is not always the case today. On the other hand, there is also an indication that investors *do* have an impact on the companies' incentives to start reporting at all, or to extend already existent disclosure to include a broader perspective on sustainability. Therefore investors' position in this area can be expected to get stronger.

Analysts, being day-to-day users of companies' official reports, do come across numerous examples of corporate reports, aiming at providing a picture of the companies' attempts and efforts in terms of sustainability. The material is, however often attractive-looking documents, most diverse in terms of quality and substance. Seeing the question in the heading from another perspective one could ask: Do analysts need what companies provide?

### **3. Context of Survey**

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#### ***Presentation of SiRi Group***

After a year of informal cooperation, the SiRi Group was formally established in April 1999. The incentive to form an alliance grew out of the need for consistent and comprehensive SRI research. The SiRi Group is an international network of research organizations, as of today with members in the USA, Canada, France, Switzerland, Sweden, Germany, Netherlands, Italy, Spain, Belgium and Australia. Each research organization covers its own national market and provides service to its financial community. By focusing on one's own home market the process of information gathering and analysis is not only rationalized, but the local expertise of each member is also taken advantage of. Companies, flooded with a multitude of questionnaires from investors, as well as investors themselves are believed to benefit from the comprehensive research that the SiRi Group conducts.

The SiRi Group has for the last year been working on designing a harmonized format for compiling and presenting information on companies. The SiRi company profile (SP) is divided into sections, one for each of the six research areas, one for general corporate information and one cross-sectional section called Controversial Business Activities, focused on issues for exclusionary screening (arms, gambling etc). Each research area has information on the company's principles and policies, management systems and key data.

The six research areas, and briefly what issues they cover are listed below:

- **Community**
  - Bribery and corruption, donations, community engagement, operations in dictatorial countries etc.
- **Contractors, suppliers**
  - Labour rights: (health and safety, working hours, freedom of association, child labour, forced labour, working hours, wages, housing) monitoring of policy compliance, certification according to SA8000, etc. NB: Environmental issues relating to contractors are covered in the section on Environment.
- **Corporate Governance**
  - Board members, board meetings, committees, voting rights, remunerations/compensations etc
- **Customers**
  - Quality- issues, customer satisfaction – issues, marketing issues, product safety etc.
- **Employees**
  - Labour rights, training, ownership programs, cash profit sharing, employee satisfaction, etc.
- **Environment**
  - Emissions, discharges, waste production and recycling, energy efficiency, fines, certifications etc.

The SiRi Group will offer investors standardized harmonized profiles of the largest 500 global companies comprising the FTSE Eurotop 300 index, the Standard & Poors 100 in the USA and 100 Canadian and Japanese corporations. The number of common profiles will gradually increase.

The first part of the survey presented in this paper is based on the SiRi Global Profile.

### ***Presentation of Survey***

The survey aims at making a rough estimation of differences and similarities between markets and industries. It is also aimed at finding differences and similarities between the experiences of researchers and corporations. Corporations have been asked on the drivers of corporate communication, and experiences of SRI research. SiRi Group members have been asked to share their experience of corporate disclosure.

The survey is not meant to give a waterproof statistical analysis, which would require extensive research and collection of data that might not even exist today. Instead it is aimed at giving an approximation on trends in the area of corporate disclosure.

The survey consists of two parts. The SiRi-profile with its research areas forms the foundation of the first part of the survey. In this part, the SiRi-members were asked to rate how readily companies disclose information on each of the research areas. The SiRi-members were also asked to list companies and sectors that are particularly good at disclosing information. Ten out of eleven research groups have participated in the survey.

The second part of the study has been carried out on four Nordic companies. Questions were asked on the drivers for corporate communication and on how the companies view investors as a target for SRI information. Only companies on CaringCompany's home-market have been chosen for practical reasons. All companies in the study are considered to be above average at corporate communication.

### ***Presentation of Companies***

**Atlas Copco**, Sweden, is active in the development, manufacture and marketing of air and gas compressors, air dryers, after coolers and related products and industrial equipment rentals. So far, Atlas Copco has not published an Environmental or Social Report, partly because the organisation has been highly decentralised. In April 2001, Atlas Copco contracted a consultant for development of the company's future sustainability reporting.

**FöreningsSparbanken (Swedbank)**, Sweden, is one of the largest bank groups in the Nordic region. The Bank's customers include private individuals, the agricultural sector, small and medium size companies, municipalities, county councils and nation wide organisations, as well as large companies. In 2001, the Bank published its first Sustainability Report, following the previous year's Environmental Report.

**Novo Group**, Denmark, is a family of companies, of which Novo Nordisk A/S and Novozymes A/S are manufacturing companies, active in the field of diabetes care and industrial enzymes. Novo Group has for three succeeding years published an Environmental and Social Report, and is ranked as one of the most progressive companies in this respect. Novo Group follows the GRI Guidelines for Sustainability Reporting.

**SCA**, Sweden, is a paper and forest company, which produces hygiene products, paper packaging and forest products. SCA has for several years produced separate environmental reports, providing comprehensive qualitative and quantitative data. The company is planning to extend its corporate disclosure with a separate Social Report, or possibly a Sustainability Report.



## 4. Results

### Part 1 – Analysts’ Perspective

To get an idea of differences in disclosure between sectors and research areas in the SiRi profile, the members of the SiRi-group were asked to make estimates on a graded scale ranging from “all companies” to “no companies” disclosing information.

#### Research Area Differences

The members of the SiRi group were asked the following:

- According to your experience, please make an estimation of how readily companies disclose information for each of the following research areas in the SP.
- Please make two estimates: one of the disclosures of qualitative data (policies, management systems) and one of the disclosure of qualitative data (key data).

#### Results:

##### Research Area Disclosure – number of companies disclosing information

Country of Research Group	Community		Contractors		Corp Gov		Customers		Employees		Environment	
	Qualit.	Quant.	Qualit.	Quant.	Qualit.	Quant.	Qualit.	Quant.	Qualit.	Quant.	Qualit.	Quant.
England	A few	A few	No	No	All	All	A few	A few	A few	A few	Most	A few
Germany	Most	A few	A few	No	Most	No	Most	Half	Most	Half	Most	Half
France	A few	A few	A few	No	Most	A few	Most	A few	Most	Most	A few	A few
Switzerland	A few	A few	A few	No	A few	A few	A few	A few	A few	A few	Most	Most
Canada	A few	A few	No	No	All	All	A few	A few	A few	Most	A few	A few
Belgium	Most	A few	A few	A few	Most	A few	A few	A few	Most	A few	Most	A few
Holland	A few	A few /No	A few	A few /No	Most	Most	All	A few	All /Most	A few	Most	A few
Italy	Most	A few	A few	A few	Most	A few	A few	No	A few	Most	Most	A few
USA	A few	A few	A few	A few	All	All	A few	A few	A few	A few	A few	A few
Nordic countries	Most	A few /No	A few	A few /No	Most	Most	All	Most	All /Most	A few	Most	A few

##### Number of research groups answering “most/all” or “a few/no”, per research area.

Number readily disclosing information	Community		Contractors		Corp.Gov.		Customers		Employees		Environment	
	Qualit.	Quant.	Qualit.	Quant.	Qualit.	Quant.	Qualit.	Quant.	Qualit.	Quant.	Qualit.	Quant.
<b>Most / All companies</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9</b>	<b>5</b>	<b>4</b>	<b>2-</b>	<b>5</b>	<b>4-</b>	<b>7</b>	<b>2-</b>
<b>A few / No companies</b>	<b>6</b>	<b>10</b>	<b>10</b>	<b>10</b>	<b>1</b>	<b>5</b>	<b>6</b>	<b>8</b>	<b>5</b>	<b>6</b>	<b>3</b>	<b>8</b>

\* “half” is considered to belong to the category “most/all”, but marked with a minus.

## Observations and comments:

After a brief look at the results of the study it can be noted that companies most readily disclose information concerning Corporate Governance- and Environmental issues. Both areas are surrounded by relatively strict national and international legislation. It can be assumed that laws and regulations form a strong incentive for good reporting.

Generally, companies are better at disclosing qualitative than quantitative information. The reason for this is probably that there simply is not a lot of key-data and comprehensive statistics available on company-group level.

Another observation that can be made is that only a few companies provide information on Community and even fewer on Contractors. It is possible that poor disclosure might hide a lack of policies and programs in these areas, i.e. material to report on. It can be presumed that these areas are neglected or at least lagging behind in the company's sustainability ambitions. Companies might lack policies, programs or key-data to disclose on these areas. One might assume that the drivers of good reporting are weakest in these areas because they are only vaguely connected to financial incentives. For example: good reporting on Corporate Governance-issues are motivated to maintain a good relationship with the shareholders. Reporting on Customer-issues is directly connected to the sales and thus the profitability of the company. Laws and regulations often motivate good reporting on Environmental issues. Finally, the company's Employees are one of the company's most valued assets, and thus reporting in this area might be motivated to attract qualified personnel. However important for the company's goodwill, it could be that the motivation for reporting on Community-issues and Contractors is lower than for the other research areas because of the lack of direct correlation to the economy of the company.

Comparing the disclosure-rates between countries has drawn no real conclusions. The slight differences that might be noticed may probably equally as well be ascribed to differences in national legislation, corporate culture, and the uneven distribution of companies between markets when it comes to sector, size and global presence.

## Sectoral Differences

We asked our partners in the SiRi Group to mention a few companies they believe are particularly good in SRI- communicating. Below is the list of companies that were mentioned. We will refrain from commenting on it.

ABB (Ch)	DSM (Ne),	Sanpaoloimi (It).
Agfa (Be),	Edison (It),	SCA (Se)
ASM (It),	Electrolux (Se)	Shell (Gb),
BAA (Gb),	Ericsson (Se)	Shell (Ne),
Bayer (De),	Swedbank (FSB) (Se)	Société Générale (Fr),
Baxter International (US)	Gevaert (Be),	STMicroelectronics (Fr),
Bekaert (Be)	Heineken (Ne),	Suncor Energy (Ca),
Bobst (Ch),	Henkel (De)	Swiss Re (Ch),
BP (Gb),	Intel (US)	Telus (Ca),
Colruyt (Be),	Interface (US)	Thales (Fr)
Danone (Fr),	MPS (It),	UBS (Ch),
Delhaize (Be),	Nike (US)	Unicredito (It),
Deutsche Bank (De),	Noranda (Ca),	Unilever (Ne)
Dexia (Fr),	Nortel Networks (Ca),	Xerox (US)
Diageo (Gb)	NovoGroup (DK)	
Dofasco (Ca)	Numico (Ne).	

The SiRi-partners were also requested to list sectors/industries that relatively readily disclose SRI information, and a list of those who do not.

**Different sectors' readiness to disclose information:**

	Strong Reporting	Weak Reporting
England	Oil Banks	IT Engineering
Germany	Chemical Automobile	Machinery IT/Software
France	Banks Electronics	Computer Sciences Financial Holdings Food & Beverage Automotive
Switzerland	Banks Pharmaceuticals Chemical	Service companies (other than bank and insurance) Machinery
Canada	Integrated Oil Industry Integrated Mining Industry Banks	Biotechnology/Pharmaceuticals Software Real Estate
Belgium	Chemicals Retail Pharmaceuticals	Banks Insurance Media Software
Holland	Foods & Beverages Oil & gas Chemicals	Media/Publishing IT
Italy	Banks Chemical sector – forced by laws and regulations Oil and Energy – first to report, but not good quality reporting	Service sector Textiles
USA	Retail and Apparel (large, not small companies) Food Retailers Technology (large, not small companies) Oil and Chemical Companies.	Oil and Gas drilling companies Producer durables/capital goods (defence companies)
Nordic countries	Forest and Paper (environment) Oil Telecom Banks Construction & Engineering (environment)	IT Media Software Real Estate

**Observations and comments:**

It seems like the manufacturing sector generally discloses information more readily than the service sector, with the exception of banks. This is probably because the manufacturing sector is exposed to a higher risk both when it comes to environmental- and social issues. However, when it comes to the US-market this seems to be the opposite – our American partner stated that service industries are more likely to be responsive than manufacturing or heavy industries. This is because they tend to be in direct contact with customers and so are easily prone to boycotts and bad publicity.

Sectors with operations that face obvious environmental risks or risks of human rights abuses, are generally more prone to good reporting simply because they have to deal with the issues in a concrete way. On the other hand, the Media, IT, Real Estate and Software-sectors might even have difficulties to see that SRI- issues relate to their operations.

Almost all members of the SiRi-group mention the Chemical- and Oil industries as sectors with good corporate disclosure. The reason for the relatively good reporting in this case may probably be ascribed to the environmental risks the industry is exposed to and also to environmental legislation.

Companies are inclined to compare themselves with other companies within its own sector, for benchmarking reasons. This might lead to one ambitious market- leader pulling the whole sector into the practice of good reporting by setting an example. The Forest and Paper-sector and the Construction and engineering-sector on the Nordic market are examples of this when it comes to environmental reporting.

Even if it is not obvious from the table above, there is a difference between how well a company reports on different issues. It may be hard today to find a sector that has an overall ambitious reporting on all social and environmental issues. A sector often begins with reporting on the issue of most importance to the specific nature of the operations. For example the Forest and Paper-industry in Sweden has long been a good environmental reporter, but has only recently begun thinking about social reporting.

Nevertheless, after having looked at the results above, one has to admit that the table reveals certain contradictions. Sectors that are by some research groups considered to be good reporters may by others be considered poor reporters. Examples of contradictory results from this study are Pharmaceuticals, Automotive, Food & Beverage and Banks. This shows that disclosure is not consistent throughout one industry, and that differences are more evident between individual companies than sectors. Other factors that are likely to influence a company's readiness to disclose SRI-information might be the size and global presence of the company, the exposure to media and NGO-activism, history of controversies, resources, regulations and the type of organization at the company. Our American partner stated that large companies are increasingly more open to sharing information because of their high visibility. Companies that have faced controversies in media concerning any of the issues in this study have a strong incitement to good SRI- reporting.

## Part 2 – Companies' Perspective

As a reference to analysts' perspective, four Nordic companies were asked about drivers for corporate disclosure, investors as a target group for reporting and their experiences of SRI-analysts.

### *Target Groups for Corporate Disclosure*

Investors' demands for environmental and social information are a relatively new, but growing phenomenon for companies to deal with. The formation of the SiRi Group is one example of how widely spread the Socially Responsible Investments have become, and there are several other groups and organisations working with similar issues.

As an SRI-analyst it is tempting to believe that companies in general consider investors being an important stakeholder group, also when it comes to non-financial aspects of their activities. At the same time we often experience a weak preparedness for our issues when we contact for example Investor Relations departments. Therefore, we wanted to ask companies:

- **Which are the main target groups for the company's environmental and social communication?**

The companies were asked to rank the following target groups:

- Investors
- Customers
- Employees
- Authorities
- Civil Society (NGOs, interested citizens etc)
- Media

### **Results:**

#### *Environmental Disclosure – Target Groups*

<b>Company</b>	<b>Investors</b>	<b>Customers</b>	<b>Employees</b>	<b>Authorities</b>	<b>Civil Society</b>	<b>Media</b>
Atlas Copco	1	3	2	6	4	5
FSB	3	1	2	6	4	5
Novo Group	2	1	1	2	1	3
SCA	2	1	1	2	2	2

#### *Social Disclosure – Target Groups*

<b>Company</b>	<b>Investors</b>	<b>Customers</b>	<b>Employees</b>	<b>Authorities</b>	<b>Civil Society</b>	<b>Media</b>
Atlas Copco	1	5	2	6	3	4
FSB	4	1	2	6	3	5
Novo Group	2	1	1	2	1	3
SCA	1	2	2	1	1	1

## Observations and comments:

Only one of the four reference companies has ranked investors as the primary target group for environmental disclosure, while another one can be included when it comes to social reporting. Notable, is that Atlas Copco, being a 'beginner' when it comes to any form of sustainability reporting, has ranked investors as target group number one. Could the fact that a 'beginner' ranks investors high as a target group for reporting, indicate that investors have now become important stakeholders? The company has verified that it was primarily the growing interest from the investment community, which acted as driver for the recent decision to extend corporate disclosure, to involve sustainability issues.

Novo Group, a 'pioneer' with a relatively long history of reporting, ranks Customers, Employees and Civil society equally as number one. Investors are positioned number two (together with Authorities). SCA, also a 'pioneer', has in the same way ranked investors number two when it comes to environmental reporting, while for social disclosure (which has not yet been formalised in a report) investors belong to the primary target group. It should be noticed that, although neither of the companies have seen investors as major stakeholders in relation to environmental and social aspects of their activities, both companies have nevertheless been well rewarded by the SRI community. This indicates that the proactive companies' efforts in the past has paid off, now when investors get more and more concerned about sustainability issues (i.e. the companies do not have to focus specifically on this target group)?

The questions posed above – Are investors' concerns more of a driver for reporting among 'beginners' than among 'pioneers'? - could also be reviewed in relation to the general trend of 'first environment, then sustainability'. As mentioned, SCA, a 'pioneer' in terms of environmental disclosure, but a 'beginner' when it comes to social reporting, has ranked investors differently for the respective areas. Could this consequently indicate that investors have an important role to play in the development and propagation of *full* corporate sustainability reporting? Also, could it be that since reporting on environmental issues generally are more regulated by law, investors have a larger role to play when it comes to social issues?

## *Drivers of Corporate Disclosure*

In order to reveal the primary drivers for environmental and social disclosure, the companies were asked:

- **In what ways does the company benefit from good environmental and social communication?**
- **From your experience. Is there a connection between good environmental and social communication and the company's profitability?**

## **Results:**

### *Atlas Copco*

The company states that:

“Maintaining good relations with those interested in these issues is good for business. We believe that we have good environmental management and we have nothing to hide, but our communication has until recently not given an accurate picture of our environmental work.”

And regarding social disclosure:

“Also, Atlas Copco has a long tradition of human resources management, and taking care of and offering opportunities for long-term professional development to our employees has clearly contributed to the company’s business development. This needs to be communicated to present and potential investors and employees.”

The potential connection between good environmental communication and the company’s profitability, is described as follows:

“Clearly there are a number of win-win (eco-efficiency) situations where environmental management pays off directly through lower operating costs, and these should be encouraged and properly communicated. It is difficult to say whether environmental communication per se is connected to profitability, but it is a supporting function and a part of the company’s overall environmental management. It is probably easier to identify problems/costs where a company has not properly communicated.”

Similar connections count for social disclosure, where it is also stated that:

“We have no objective evidence of such a connection, but it is our belief that transparent communication will benefit the company (financially) in the long term.”

### *FöreningsSparbanken*

The company states that its employees find it enjoyable and stimulating to work for a company taking environmental and social issues seriously, and that it also makes the Bank an attractive work place for new employees. Furthermore, the company sees great benefits in communicating social issues to the civil society, such as municipalities and NGOs.

For other external stakeholders, such as investors:

“It also strengthens our brand and share-holders get a stronger confidence in our company and share. It is, however, a great challenge to communicate this kind of long-term profitability.”

FöreningsSparbanken states that what leads to long-term profitability are, among others, the following factors:

- A stronger brand
- Growing business opportunities and market shares
- Attractive employer
- Attractive for investors
- Lower risks in conjunction with environmental analysis prior credits and investments (uncertain to what extent this aspect can be related to external communication)
- Cost-savings in relation to resource efficiency, mainly achieved through internal communication

In terms of social disclosure, the company states that it is even *more* crucial to emphasise the importance of applying a long-term perspective on profitability, such as ethnical diversity and impacts on brand reputation.

#### *Novo Group*

In connection with environmental and social reporting, Novo Group lists three important factors for profitability:

- Company and brand reputation
- High quality stakeholder dialogue
- Internal awareness

Generally, the company states that profitability is more dependent on actual performance (such as employee satisfaction) than on reporting.

#### *SCA*

SCA states that a good environmental report is a “white-book” verifying that you are doing things right. It shows that your company is complying with legislation and has an opinion and ambition.

For environmental performance in general, SCA states, there is a 100% connection with profitability, especially in industrial terms (energy-efficiency=profitability etc). Another connection can be seen in cases when an analysis of the company leads to inclusion in sustainability indices such as DJSI and Innovest.

SCA has experienced that stakeholders, and to some extent the capital market, require good social reporting. Initially, it will be a competitive benefit in having a good social reporting, but further on it will become a “sanitary requirement” To start off with, SCA will report social and environmental issues separately. In the future, they will possibly both be part of a sustainability report.



The connections between good social reporting and profitability are more uncertain to SCA. It is stated, however, that if a company performs well, earns money and has good working conditions, it will attract skilled people, which is the most important mean of competition. "Good staff wants to work for a company with good reputation."

### Observations and comments:

It is clear that all four companies have identified benefits, and more or less direct connections with profitability, in the communication of sustainability issues. The general view seems to be that this type of reporting contributes to the overall picture of a well-managed and responsible company, whether it is communicated internally or to external stakeholders. As was concluded above, investors are not necessarily regarded as a primary target group for reporting, although brand reputation, good management etc, are also important factors for share-value.

### Means of Communication

Corporate Disclosure mainly refers to official reporting. There are, however, a number of other ways to provide investors with information, which are all part of the current SRI-research methodology. High quality official reporting is, from most SRI-analysts' point of view, regarded as the most efficient way of communication, although most reports so far produced do not fully meet our needs. It is not obvious that this opinion is shared with the companies, who therefore were asked:

- **What means of communication do you find most efficient in order to provide investors with relevant and correct environmental and social information?**

### Results:

#### Environmental Disclosure – Means of Communication

Company	Personal meetings	Telephone interviews	Questionnaires	Official reporting	Other
Atlas Copco	2	4	3	1	-
FSB	1	-	-	2	-
Novo Group	1	1	2	1	-
SCA	1	1	1	1	Web-site (1)

#### Social Disclosure – Means of Communication

Company	Personal meetings	Telephone interviews	Questionnaires	Official reporting	Other
Atlas Copco	2	4	3	1	-
FSB	1	-	-	3	Presence in the local community (2)
Novo Group	1	1	2	2	-
SCA	1	1	1	1	Web-site (1)

## Observations and comments:

Generally, the companies (especially SCA) seem to regard the suggested means of communication as complementary. Only in one case (Atlas Copco), is official reporting clearly ranked as the most efficient way to communicate with investors. This should, however, be seen in relation to the fact that this company has to date not published any form of sustainability report. Therefore, this could possibly rather indicate that the company 'hopes' that by producing official reports, it will get around the problem of last year's 'non or un-sufficiently efficient' communication with investors. The company has also verified that the primary reason for its recent efforts to start producing official reports, is that it has seen a growing interest among investors.

Novo Group has ranked official reporting differently for environmental and social disclosure. This could probably be explained by the fact that social issues are not as easy to quantify as environmental aspects, and could therefore better be communicated via personal meetings and interviews.

FöreningsSparbanken regards personal meetings as the most efficient mean of communication in both cases. Interesting to see, is that when it comes to communication of social aspects, the company states that its presence in the local community (i.e. actual performance) is more important than its official reporting.

## *Quality of Investor Analysis*

All of the four companies have been subject for SRI-analysis of different kinds. Several models and approaches occur within the SRI community of today, variations that the companies are well aware of. In order to allow them to give their view on the quality and potential improvements of current analyses, the companies were asked:

- **From your experience: Do investors' environmental and social analyses give a correct picture of your company?**
- **Are there any ways through which the exchange of information between investors and your company could be improved?**

## Results:

### *Atlas Copco*

Atlas Copco states that until recently the company has not been very active in communicating its environmental and social work and responding to e.g. questionnaires. Therefore, the company says, those investors that have attempted to conduct an analysis based on publicly available information will get the wrong picture of the company. On the whole, the company states that those analyses that have been done recently have a better (more correct) picture.

Atlas Copco suggests that harmonisation of questionnaires and analyses (approaches), and better use of publicly available information (including general information about its business activities – i.e. be better prepared) and information technology would make the communication process more efficient.

#### *FöreningsSparbanken*

FöreningsSparbanken states that the quality of analysis varies between different analysts. Most of them, however, are considered to make a more or less correct environmental analysis, and over the last years the awareness of the financial sector's indirect impacts has increased. The company states that so far it has been a bit unclear regarding its complete social engagement, something that is now being addressed through a Sustainability Report.

FöreningsSparbanken suggests that more environmental and social information should be included in the annual report, as well as integrated in other official publications, and specifically in Investor Relations material. Especially important, is to explain the long-term and profitability perspective.

#### *Novo Group*

Novo Group states that investors' environmental and social analyses give a more or less correct picture of the company. However, there is often a problem that analyses (questionnaires) are too general.

Novo Group suggests that the exchange of environmental and social information could be improved by sector specific and standardised analyses, as well as with more feedback.

#### *SCA*

SCA states that it is easiest to communicate via official material and publications. The company's own experiences are, however, that investors are often interested in superficial information, such as environmental costs, which ultimately shall be found in the annual report.

#### **Observations and comments:**

A general view among the four companies, seems to be that the SRI-analyses give a more or less correct picture, and that the quality has improved over the last years. All of them do, however, suggest further improvements, such as harmonization of method and approach and/or sector specific analyses. One of the companies also suggests that analysts should be better prepared and make sure he or she has a good knowledge about the company structure and activities. Part of the responsibility for improvements is also put on the companies themselves, in terms of better official reporting and use of information technology.

## References

For more details about the context of this survey and for further information , please visit the following web-sites:

**The SiRi Group:** [www.sirigroup.org](http://www.sirigroup.org)

**Members participating in survey:**

**AreSe SA (France):** [www.AReSE-sa.com](http://www.AReSE-sa.com)

**Avanzi, s.r.l. (Italy):** [www.avanzi.org](http://www.avanzi.org)

**CaringCompany AB (Sweden):** [www.caringcompany.se](http://www.caringcompany.se)

**Centre Info SA (Switzerland):** [www.Centreinfo.ch](http://www.Centreinfo.ch)

**Michael Jantzi Research Associates (Canada):** [www.mjra-jsi.com](http://www.mjra-jsi.com)

**Pensions & Investment Research Consultants (UK):** [www.pirc.co.uk](http://www.pirc.co.uk)

**scoris GmbH (Germany):** [www.scoris.de](http://www.scoris.de)

**STOCK at STAKE SA (Belgium) :** [www.stockatstake.com](http://www.stockatstake.com)

**Triodos Research BV (The Netherlands):** [www.triodos.com](http://www.triodos.com)

**Companies participating in survey:**

**Atlas Copco:** [www.atlascopco.com](http://www.atlascopco.com)

**FöreningsSparbanken:** [www.foreningssparbanken.com](http://www.foreningssparbanken.com)

**Novo Group:** [www.novogroup.dk](http://www.novogroup.dk)

**SCA:** [www.sca.com](http://www.sca.com)