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Perspectives of the Chamber of Commerce of the United States formulated the challenge as follows: "If business corporations are to adjust to continually changing demands for social as well as economic performance, they must do something more fundamental than respond to the proposals of others. Business must restructure its perspectives so that social goals are put on a par with economic goals."[2]

Since the early eighties, the situation has changed. Although the companies which pioneered concepts of corporate social reporting are still continuing their efforts, few are joining their ranks, except in countries where legal requirements for social reporting have been established. And methodological progress—after significant steps forward in the first decade—seems to be slower.

This loss of momentum presents a good point in time for stock-taking. What has been achieved? What is the theoretical basis from which concepts have developed, and which models appear to be most promising? What lessons have been learned in practice? How useful is corporate social reporting as a concept to reduce the negative social impacts of business activities and to foster positive behavior? The purpose of such a review and assessment of work to date is forward looking. Should further efforts be pursued in the direction of corporate social reporting—and if so, what should they look like? The aim is to contribute to answering these questions by building on the basis of past evaluations with a view to establishing future perspectives.

Social Reporting: Theoretical and Conceptual Bases

The literature on corporate social reporting, accounting, and auditing draws from a wide variety of different theoretical and conceptual developments.[3] Among the most important are

- research on the business and society interface, redefining the role and tasks of the business corporation from a purely economic to a socio-economic institution accountable to a wide range of constituencies;
- studies on changes in goals and strategies of the business corporation;
- the economic theory of externalities; and
- research on disclosure and its behavioral implications.

There are two common themes in these fields of research. First, corporate social responsiveness is a key task of management since "there is little merit in treating social and economic issues as though they were clearly separated from each other."[4] Second, external control of corporate social responsibility is necessary, but the legal system cannot provide all the required solutions. Corporate social responsiveness therefore implies a "combination of adjustment to external regulation, a long-term anticipatory philosophy of business policy and internal self-control."[5]

The concept of corporate social reporting grew out of the convergence of these views and is based on the recognition that they imply the following functions:

- to support management in integrating a wide range of social considerations into decision-making;
- to provide methodologically sound and comprehensive information on the social impacts of business activities; and
- to permit the monitoring, evaluation, and—where necessary—control of corporate social behavior by stakeholders.

The success of social reporting as a means of improving corporate social responsiveness depends on the positive establishment of a number of assumptions:

- indicators and reporting schemes for measuring and documenting the broad spectrum of social impacts of business behavior in a comprehensive, meaningful, valid, and reliable manner can be developed;
- the usefulness of the instruments developed is recognized, and the diffusion of their application is assured; and
- disclosure, linked to feedback, proves to be an efficient way of integrating social considerations into business decision making. This assumes that in addition to its internal function of providing relevant societal information to management in order to achieve more sensitive decision making, corporate social reporting as disclosure can serve as a credible alternative to prescriptive regulations in some cases and as a means of supplementing the regulative process in other cases.

The first two assumptions are methodological in nature, the third more basic and conceptual. It is based on the premise that the disclosure of social performance information can fulfill a control function in two ways: through self-regulation resulting from the very disclosure process; and through external pressure resulting from critical reactions from the general public, the media, or specific stakeholder groups. The viability of this premise for corporate social reporting is impossible to assess at this time, since the effectiveness of this method of influencing business behavior must be evaluated in a long-range, historical perspective—if it can be evaluated at all. The usefulness of disclosure to achieve the goal of corporate social responsiveness with a minimum of cost to business and to society in the long run therefore can be postulated today as a goal, but not measured directly. For this reason, this effort to evaluate the general concept and the development to date focuses on the assessment of the validity of the first two assumptions in the light of the experiences of the past decade. For the first, a review of methodological developments in concepts and indicators is necessary. The second requires an examination of the determinants of usefulness and an assessment of the level of use—a

planning and performance."[9] Goals are determined by management as a function of its perception of the social and economic realities of the company, including the demands placed on it by the various stakeholder groups. The goal accounting concept relates the economic and social goals of the company to its activities in a given period with the use of a variety of indicators. The degree of achievement of these goals is therefore the logical subject of the corporate annual report. This approach has been used effectively by a number of companies in Germany (e.g., Deutsche Shell AG; Bertelsmann AG; Kölner Bank), Switzerland (e.g., Migros Genossenschaftsbund), and Sweden (e.g., Fortia) to achieve an internal consistency in the reporting framework for managing according to and reporting on principles of corporate social responsibility. The fact that this approach requires reporting on all areas of activity according to the established goals has stimulated experimentation in the development and sophistication of indicators in areas (e.g., company/customer relations) which are rarely found in social reports following other concepts.

Goal accounting is intended to function on the principle of feedback, whereby the stakeholders are expected to contribute to the process of establishing the priorities and goals of the company, to evaluate the performance of the company in meeting these goals, and then to influence the revision of goals for the subsequent period, using their "voice option." Although in practice the implementation of feedback in the goal-setting and revision process remains quite underdeveloped, it is significant that the few experiments to ascertain the information interests of stakeholders have been conducted by companies following the goal accounting concept, a point which documents the pioneering role of these companies and the usefulness of this concept as a motor for innovative developments in this field. A learning process can also be observed in the gradual improvement in the specification of individual economic and social objectives derived from the overall philosophy and general goals. The fact remains, however, that the few companies with the courage to employ such an encompassing and demanding framework have been criticized for lacking objectivity and comparability, due to differences in format, scope, and type of indicators.

The Social Indicator Model—A *third* approach attempts to come to grips with the weaknesses in the first two models by assuming that objectivity and comparability are key concerns in effectively linking performance measurement to the overall quality of life in specific regions or in areas of special social concern. Objectivity and comparability can be obtained only if companies—at least in a given industrial sector—report on the same areas and use the same indicators. The impetus for this type of corporate social report has been largely outside the company, in contrast to the first two models discussed. Business constituencies (e.g., governments or unions), interested in analysing and comparing corporate social perform-

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• The more external pressures are brought to bear upon business to prepare social reports, the more constituency groups define their information needs, the more legislative efforts are made, the more likely it is that the social indicator approach will prevail. If demands for corporate social reports are increased by business constituencies interested in using the information contained therein, then the trend will be towards maximizing objectivity and comparability by establishing contractual or legal requirements to publish according to a specified framework.

The question is whether it is desirable that one of these three models prevails. In view of the discussion of the advantages and weaknesses of the different concepts above, it appears valid to look for a mix in order to maximize the advantages of experimentation and individualization while achieving a useful level of objectivity and comparability.

Social Reporting: The Practical Experience

Our purpose in examining the practice of social reporting is a general quantitative and qualitative assessment of the developments to date. Specifically, how widespread is the practice? The data base is limited, but it is possible to draw general conclusions on the basis of a number of recent studies that describe and evaluate developments in different countries in order to stimulate experimentation and cross-fertilization.[12]

First, the voluntary use of corporate social reporting as an instrument of corporate social responsibility is not very extensive. In each country there are some pioneering firms which have conducted some far-reaching experiments with the various concepts, and a small number of firms who report on social considerations in a very general fashion. Widespread reporting has only been achieved so far when mandated by law. Although "the trend towards increased—and increasingly informative—corporate social reporting is clear"[13] and "the amount of reporting is greater, more carefully presented, more quantitative, and in some other respects substantially improved than 20 years ago,"[14] the number of companies involved in social reporting beyond legal requirements is still a small minority. The Ernst and Ernst survey reveals that approximately 90% of the Fortune 500 firms reported in their 1977 annual reports on social performance and that almost 50% of them constantly gave social performance information for the five-year period ending March 31, 1978.[15] However, only 21 industrial companies, eight commercial banks, and one life insurance company specifically mentioned in their 1977 annual report that they had published separate reports on social performance.[16] The same is true for the Federal Republic of Germany: while 50% of the largest companies are reporting on their social performance (at least partially meeting some of the standards suggested by the "Arbeitskreis Sozialbilanz-Praxis"), only 40–60 can be viewed as being involved in social reporting on a methodologically advanced level.[17] The situation in France is somewhat different: even before social reporting was required there by the law passed in 1977, Rey estimated a relatively high involvement in such reporting (200–300 firms). Since the law of 1977 has gone into effect, the level of social reporting has obviously jumped significantly: since 1978, all firms with more than 750 employees must prepare social reports according to an established catalogue of indicators, and since 1981 all firms with more than 300 employees.

Second, the quality of social reports is quite uneven. There is considerable variation as to the scope of reporting and the sophistication of the measurement techniques. The variations within countries cannot be categorized according to specific industries: the innovators do not seem to come more from one industry than from another. On the other hand it is possible to distinguish quite noticeable differences between the standards of social reporting practices in the United States and those in Europe, particularly Germany and France. For example, a major difference between American and European reports is the spectrum of issues covered. While the reports by businesses in the U.S. usually focus on the external environment (consumer issues, physical environment, community relations), the European counterparts heavily emphasize the internal environment and company-employee relations.[18] This substantive focus seems to have implications for methodological developments. A major weakness of American reports is seen in the fact that they usually refer to "activities or inputs, but do not characterize impacts."[19] European reports make greater efforts in this direction, although often in qualitative rather than quantitative terms. This may be attributable to a certain extent to the fact that output measures can be more readily developed for employee issues—the emphasis of European reports—and to the fact that more information is traditionally available on these issues than for the external environment.

While there is still no absolute consensus within countries—let alone between them—on what should be included in social reports and how it should be measured, more attempts have been made in Europe at standardization of format and indicators than in the U.S., and more effort has been put into achieving comprehensiveness and maximizing quantitative measures. In France, for example, the law established catalogues of indicators for different industries. In Germany, the above mentioned business task force developed guidelines for social accounting. The unions in Germany have started to take a more active role in formulating requirements as to information needs so as to achieve a more comprehensive and standardized reporting practice.

In spite of the progress that has been made, however, most proponents as well as critics of current social reporting practices agree that relatively few of the corporate social reports published today rate very highly in terms of the desired criteria and in terms of the expectations raised by academic research. The fact remains that "much of what is reported is selective, and some of it is self-serving" although, of course, "notable exceptions to the norm do exist."[20] It appears that there are more "exceptions to the norm," so to speak, in Europe than in the U.S. Specifically,

> European firms are more active with respect to social reporting than are their American counterparts, and in a few respects, they are more technically advanced. Among these notable steps taken in Europe are: 1. better definition achieved either voluntarily or by government action, of those elements and measures that are to comprise company profiles; 2. greater standardization of reporting measures and formats; 3. substantial increase in the number of companies reporting—in some cases voluntarily and in others in response to legal requirements. . . . Undoubtedly, the experience gained in E[illegible] European companies will lead to further improvements in social reporting in Europe, generating new models and procedures from diverse political and economic cultures that may help to answer some of the unresolved questions concerning the effect of social reporting."[21]

Despite the exchange of ideas promoted by the international diffusion of the relevant literature, relatively little cross-fertilization seems to have taken place thus far. Clearly, the sociopolitical context significantly influences the development of social accounting. On the one hand social concerns differ in definition and emphasis across countries, and on the other hand the specific form of instruments differ according to sociopolitical contexts. But more intensive efforts to tap this unusual resource of a "natural laboratory" of experimentation across national boundaries should be promoted.

The Usefulness and Use of Social Reporting Information

Of course, the entire exercise of social reporting is sterile if it has no real impact on behavior. But how can decisions and actions be attributed to the report? Some insights can be gained from statements made by management and by stakeholders. For example, managers confirm that the process of putting together a social report is useful for exploring future policy. And they find the social report useful for internal performance evaluation, particularly when based on the concept of goal accounting. Over and above such statements, however, the indirect impact of social reporting is of central importance. While this is impossible to measure, the significance of this aspect should not be underestimated. The very fact that companies collect and publish information on their social impacts is likely to influence business decision making. In this sense, the social report functions similarly to the traditional financial report—its existence serves to monitor and control business behavior, even without extensive and detailed use by the majority of target groups. Do shareholders really read conventional annual reports? Probably [illegible] most do not, but the fact that they could and that the media can analyse the data has an important impact on business behavior. This impact cannot be quantified, but it must be borne in mind in evaluating the usefulness and actual use of social reports and in developing strategies for their future.

Beyond the voluntary and pro-active use of social reporting information by constituency groups, procedures for the use of social reports can be institutionalized, enforcing the actual use of such information. This has been done in France, where the 1977 law requiring social reports includes a clause providing for the discussion of the draft report in the works council and for the preparation of a statement by the works council which can imply a revision of the report. Then, copies of the final report with the works council statement must be sent to the government labor office and made available to employees and stockholders. The goal of this legislation is therefore to provide an objective information base so as to enable more rational business-employee relations. The establishment of a fixed list of indicators is intended to encourage a joint search for solutions and a concerted action to implement them.[22]

Do such legal requirements ensure the full use of social reporting information and the behavioral implications intended? The first year in which mandatory social reporting was conducted was 1979, so that not enough time has yet elapsed for a thorough evaluation of this approach. However, the first steps have been taken towards analyzing the extent to which the legislation has institutionalized modes of usage. In this first year, the prescribed discussion of the document in the works councils stimulated a careful examination of the information in most cases. For example, of the 61 works councils' statements Vogelpoth received, only 19 were brief and formal rather than substantive in nature; 28 involved a treatment of individual indicators and/or a criticism of the mode of measurement; and 14 represented comprehensive examinations of the draft with criticisms, suggestions, and alternative calculations.[23] On the basis of the interest and active response in the first year, it is to be expected that with time and experience the works councils will learn to use the information in the reports to substantiate criticism of business policy and will integrate it into their bargaining strategies with management.

The learning process instigated by the law can also be observed in the media. In fact, some journals, such as *L'Expansion,* began auditing corporate social responsibility in the early phases of the general discussion about the need for a law. Many of their indicators were later formalized into the legislation. The critical use of the information by the media to assess and compare social responsibility exerts significant public pressure on business to improve its performance.

Useful Social Performance Information: How Can It Be Institutionalized?

The use of social performance data as a basis for discussing, developing, implementing, and monitoring business social policy—as the French experience seems to indicate—not only depends on meeting actual or perceived information needs but also on the way it is institutionalized. Different forms can influence the degree and direction of business' social involvement as

Another option would be the formulation of reporting demands by the *board of directors* or *shareholders.* These could generate—if pursued on a rather large scale—some impetus to significantly expanding the number of companies that regularly provide social performance information. First steps in this direction have been suggested by the Business Roundtable. In a 1978 statement, it discussed the responsibilities of the board with respect to social impacts of business activities. "It is the board's duty to consider the overall impact of the activities of the corporation on 1) the society of which it is a part, and on 2) the interests and views of groups other than those immediately identified with the corporation." It has been suggested that either the entire board or a public policy committee of the board could review corporate social measurement activities in general and social reporting in particular, because review and approval by the board could improve the quality of reporting and enhance its credibility with the public at large and affected groups.[25] The need for disclosure of socially relevant information has also been expressed by certain types of shareholders, such as ethical investors.[26] While more research should be done on ways of integrating considerations of corporate social concern into board and shareholder decision making and monitoring functions, efforts to increase the over-all expansion of corporate social responsiveness must define approaches which are applicable to all kinds and sizes of business enterprise. The concentration on boards of directors and sharheolders is too limited.

A broader based approach could be found in the establishment of formal agreements between *business and its constituencies.* Allowing for characteristic differences in modes and results of production, reporting requirements could be agreed upon between businesses and constituencies on an industry-specific basis. One could envisage the organization of committees from the different constituencies of business in a given industry for the purpose of determining the format, indicators, and auditing process for social reports to be published by the firms in that sector. However, as discussed above, this would probably result in uneven representation of issues, since it appears that the best organized and most articulate constituency is usually the union. As is to be expected, the German experience with the proposal of the Association of German Unions shows that the focus of their interests is business-employee relations, leaving the remaining important aspects of corporate social responsibility largely unrepresented.[27]

In view of the disadvantages of the voluntary and quasi-voluntary, relatively decentralized approaches suggested above, one might consider *mandatory social reporting* in order to ensure the wide practice and standardization of social reporting. France has passed legislation requiring social reporting; the British Parliament considered legislation several years ago, and the Italian Parliament has discussed a proposal. Learning from the French experience, however, there are some dangers inherent in a detailed law which establishes not only the requirement but also determines the specific indicators to be covered. This freezes reporting to the present state of the art, making the integration of methodological progress over time very difficult. It tends to stifle experimentation with different, possibly more valuable indicators and modes of reporting. Changing legally prescribed indicators to adapt to methodological and conceptual advances or changing perceptions and social concerns is too complicated a process to allow for the necessary flexibility. Further, a detailed law such as that passed in France would probably limit the scope of business attention to those areas of social concern defined in the law. A law specifying a list of indicators therefore would not encourage companies to pay attention to emerging areas of social concern or to those areas of social concern which are characteristic only of their own environment.

How then can the advantages of the various options sketched above be combined and their disadvantages be minimized? One could envision the establishment of a requirement for social reporting which determines the over-all scope of the report and outlines general guidelines to be followed. This would ensure a broad practice of social reporting, rather than the limited success of implementing the voluntary approach. The requirement could be mandated by a parliamentary body or by a government regulatory agency such as the SEC. In order to ensure flexibility over time and between industries, the operationalization of the concept, specifically the development of appropriate indicators, could be delegated to committees (somewhat parallel to the delegation of specific accounting rule definitions by the SEC to the FASB). Such committees composed of representatives from business and its constituencies differentiated according to industries could be charged with determining the exact format, choosing valid and comparable indicators specific to the given industrial sector, and establishing auditing procedures. Such an approach would encourage further experimentation where desirable and would permit the integration of the results of the experimentation into practice in an unbureaucratic fashion. It would therefore not stifle the current explorations being conducted by innovative businesses, but rather ensure that more companies and their constituencies became involved in the process.

A great deal more careful examination of the modalities of mandatory social reporting must be conducted. The most appropriate agent for mandating the requirement will differ according to existing arrangements and socioeconomic structures. However, the time has come for such a step. Enough experimentation has been conducted with concepts and models in different countries to allow one to conclude that social reporting is a useful tool for integrating social consideration into decision making by business and its constituencies, and sufficient methodological progress has been made to provide a solid basis on which to establish the framework for a requirement and on which to begin operationalizing in terms of specific indicators.

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