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Dear Reader,

As I was finishing the manuscript of my new book about the sustainability mindset, I came across the latest issue of CR-Magazine, a publication that is playing a major role in shaping the ethical landscape of the U.S. corporate world. I was thrilled to observe the increasingly courageous stance the magazine has taken over the years. The changed stance is based on valid reasons – we need to change the way we act, shop, produce, and decide. Fast!

Enjoy the reading and, if you don't currently receive the publication, check it out at [www.thecro.com](http://www.thecro.com).

Isabel Rimanoczy  
Editor

**Quote of the Month**

*"You can run but you cannot hide."*

Origin unknown



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**SharSharSharSharMore**

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## The Age of Transparency

By Isabel Rimanoczy

Over the past twelve years, CR Magazine and the Corporate Responsibility Officers Association, CROA, developed a methodology for measuring and ranking the transparency and accountability of publicly traded firms. This methodology, which has gone through revisions and peer reviews over the last twelve years, provided a starting point and an important contribution to developing new ethical standards. They focused on the largest U.S. firms listed in the Russell 1000 Index, in the hope that change in the largest firms has the greatest impact: and so it has proved since these firms have become examples, and have set new standards of behaviors in numerous professions. Having lived most of my life in a developing country where practice of corruption and tax evasion was "the norm", I got used to the vicious circle that only reinforced bad practices and led to rationalizations like, "If others don't pay taxes, why should I? If others bribe, and I don't, then I won't be successful". As I began to study Sustainability and CSR, I noted the inverse phenomenon: as a few large MNCs made steps towards more environmentally responsible citizenship — and extensively tooted their horn about it! — their efforts resulted in putting pressure on their competitors to live up to a higher standard. I called this *the virtuous circle*.

The CROA committee assessed in 2012 data related to the environment, climate change, human rights, employee relations, philanthropy, governance, and financial performance. The evaluation ranked corporations on these areas, and the corporations are given the opportunity to review their scores and submit corrections. The CROA list of 100 Best Corporate Citizens is issued every year, as well as industry sector listings, plus a government contractor list.

## **Voluntary disclosure**

The interesting aspect of this process developed by CR Magazine and CROA is that it is based on voluntary transparency, and transparency is considered the precondition for responsible corporate citizenship. To be responsible means the organizations accept that they be held accountable for the decisions they have made. At this stage, the methodology provides information to the public that can help when deciding whether to invest in them or not, to work for them, to share a neighborhood with them, or to purchase the products they market. The best way to improve responsibility is to make information available to customers, neighbors, employees and investors.

As contributing writer of CR Magazine Richard Crespin indicates, the purpose is not to mandate corporate responsibility through government regulations. "Once it's mandatory, it is required to comply, it is not responsible". Compliance is not bad, and it is urgently needed. When the Securities and Exchange Commission receives information about CEO stock options, they can see what is happening inside corporations, and this matters to investors. And when activists find data about serious environmental impact, the Environmental Protection Agency establishes fines for violators. And the Food and Drug Administration is entrusted with overseeing the health implications of products we buy.

So when corporations don't comply, they break the law. Compliance is the first step in CSR. But you cannot comply your way to greatness, Crespin adds. The effort is to go beyond compliance. The new ethical standard is "voluntary disclosure".

This effort has been developing over almost a decade. A recent report by KPMG indicated that 95 percent of the world's 250 largest companies report on their corporate responsibility. There are many nuances in the quality of the reporting, as we know, going from public relations campaigns (for example BP's "Beyond Petroleum" campaign) to committed actions with impact on environment and communities. Interestingly, European corporations are much more committed than their American counterparts: from 1360 companies that issued CR reports in 2009, only 130

were US-based.

## Red cards

Some of the data collected for the ranking is however required by law, and some is reported voluntarily by the corporations. By declaring both as important CROA indicates what should constitute ethical corporate behavior and disclosure. "Not what should be required, but that which is ethical", Crespin adds. One of the surprises the committee found was that many companies did not even disclose the mandatory data.

In their 100 Best Corporate Citizen List, the CROA uses a soccer analogy, submitting red and yellow cards to signal companies that have shown behaviors that warrant sanction. An example of the award of a red card in 2011 involved the company Allergan Inc., after it pled guilty to a misbranding charge related to Botox for \$375 million, and was forced to pay an additional \$225 million fine to settle civil claims; or Exxon Mobil, first red-carded in 2010, after it was found liable in October 2009 for contaminating groundwater in New York City and had to pay the city \$104.7 million as a compensation for damages.

But perhaps the most innovative and interesting initiative launched by CR Magazine and CROA was the Black List. A few years ago, they began to receive requests to not only list the best companies, but also those that were least transparent! This new list naturally generated no little discomfort among the companies that earned a place in the ranking, and the commission received complaints and litigious threats in some cases. But as Editor-in-Chief Dirk Olin observes, it doesn't take much at all to get off the Black List. A company can just reveal some CR-related information, answer some questions from the Carbon Disclosure Project, put the employee benefits policies online, and report whether they buy carbon offsets — or not. Because as indicated, the Committee is not judging the business or the decisions it makes, but just acknowledges the lack of *transparency*.

Meriting a position in the 100 Best Corporate Citizens List requires significant achievements by organizations, while in contrast avoiding a place in the Black List only requires minimal transparency. It also serves to avoid embarrassment, as the CEO of Abercrombie & Fitch realized after the company was placed in the first Black List. He wrote a cover story for CR Magazine promising to escape such a reputational damage going forward, and he has lived up to his promise in the last two years.

Olin observes that it does happen that a company is actually seriously committed to sustainability, but just fails to issue public reports. The failure results in the company appearing on the list, which is a wake up signal for them to be more public about their (exemplary) behaviors.

## A road with no return

Once a company starts a reporting practice, there is no way to stop or go back. By reporting they certainly will attract more public scrutiny, however there is a plus side to completing the reports, and that is that the company will focus on opportunities for progressively improving practices that are unsustainable. Who wants to be unsustainable, after all? We need a community to buy our products, we need a planet to provide us with resources and to live on. How myopic can we be?

Sustainability reporting is not just a collection of numbers, or reports on some projects with nice photography. It is about a commitment to innovation and change. It demands leadership awareness, vision, and courage. The report becomes the visible face of a movement that is happening inside and changing the culture of a company.

As I studied business leaders championing sustainability initiatives, I observed how they tried to make "a business case" to influence others inside the corporation to change their attitudes. To the great surprise of these leaders, the employees jumped at the opportunity to become socially responsible; they didn't need charts and business cases, they just wanted to feel they were working in a corporation that was ready to espouse and demonstrate ethical behaviors; they found a purpose in contributing to the greater good, and their daily contribution on their job gave them an opportunity to be meaningful.

As Olin observes, corporations that have sustainable practices in their production, their use of resources, with their workforce, community and customers — see the benefit on the bottom line, "and also help leaders sleep at night".

In a meeting of the European Community countries back in 1989, environmentalists presented a report about the dangers of industrial agriculture to an audience of governmental policy makers and industry leaders. As they described the environmental problems in Western Europe, an executive from a leading French corporation threw up his hands exclaiming: "Yes, yes, OK! But just leave us the Third World!" Can you imagine this happening today, in our Facebook and Twitter world?

Transparency is a road with no return, and we are already beginning to benefit in this new age. Transparency dilutes the power concentrated and hidden from public view. With anyone capable of posting a YouTube, of Tweeting or reaching the world through Facebook, we have seen that governments can be overthrown. Remember your mother's old saying — 'Behave in a way that your actions can be headlines in the newspaper'? (without embarrassment, she meant... ). We're there, it's happening, and we're all contributing to making this a more ethical world. Or should I say, we all have the opportunity. Will you take it?



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