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## Corporate social reporting: the German experience

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Corporate  
Social  
Reporting:

The  
German  
Experience

Meinolf Dierkes

# 3

As in all other highly developed market economies of the Western world, the impact of business activities on the quality of human and social life and specifically the living environment has become a prominent subject of debate and concern in Germany during the past decade. This development has been influenced by a growing recognition of the social cost of economic development and a shift in values away from the purely economic orientation of the past toward an emphasis on "quality of life" issues.

In Germany, as in other advanced market economies, discussion of the social costs associated with rapid economic growth has also stimulated political debate in which some participants attempt to assign responsibility for negative side effects of economic growth. Overlapping charges made by other social groups, partially as an outgrowth of the student revolution in the late Sixties, sought to portray the private enterprise system as grossly exploitative of the society.

The combination of these trends represented a sharp change in the relationship between business and society. During twenty years of the "Wirtschaftswunder," business was considered a prime source of growth, wealth and well-being. The business community, not immediately prepared to understand the rather fast and profound value changes occurring, reacted at first with frustration and alienation. It was unsure about its future role and importance in society. Even empirical studies revealing a quite acceptable public image of the business community did not significantly alter the negative image the business community perceived itself as having among the general public. Business found itself taking the blame for many developments which were suddenly considered to have been guided by wrong priorities.

Attempts were made to develop concepts to integrate social considerations into business decisionmaking. Conceptual alternatives ranged from basic changes in the overall economic system to extension of participation (Mitbestimmung) on the part of the employees and the unions, to more detailed and extensive governmental intervention.

Under the general umbrella of basic changes within the overall economic system, a variety of measures has been discussed to reduce the social costs of business activities and to improve business's positive

contribution to the quality of life. Investment control, central planning, and the nationalization of key industries or individual companies were among the specific measures gaining political visibility.

An expansion of labor participation (*Mitbestimmung*) was another frequently discussed measure. By shifting more decisionmaking power to unions, proponents hoped to reduce the influence of capital interests on decisionmaking within the firm and at the political level. The central feature of this proposal was to establish economic and social councils to coordinate public and private decisionmaking, specifically with respect to investment, products, locations and infrastructure. These councils would broaden the perspectives and goals of participants in the decisionmaking process by requiring business and public decision-makers to take into consideration a broader spectrum of social goals.

While basic economic change and broader labor participation have remained at the discussion stage, a third option has moved beyond the sphere of academic and political debates to political implementation. Gradually, government has tightened controls on business by setting rigorous standards for environmental protection and the quality of life at the work place. Since 1971, a significant amount of legislation, specific regulations and tighter controls on business by specialized agencies have been used in a major attempt to reduce the social cost of business decisions in these two areas of prime concern.

## CORPORATE INITIATIVES

The business community saw areas long thought to be exempt from political control—such as investment, choice of production technology, choice of products—become subject to political scrutiny. Business realized that if it did not start taking a broader view of its relationship to society, it would be increasingly subject to detailed external control and intervention. Thoughtful business leaders saw this as a significant and important challenge. They began to recognize the need to reconsider the role of business in society and to develop new concepts to guide the future development of individual companies as well as the business community as a whole. The discussion gradually shifted from the level of arguing for the desirability of an extended social responsibility on the part of the corporation, to developing management con-

cepts integrating social and economic goals.

Though top management in German industry still expects that government intervention in business decisionmaking will increase during the next two decades, it is increasingly convinced that a carefully designed, rigorous and visible policy of expanding the social responsiveness and accountability of the business corporation will be the optimal alternative strategy. The efforts by the business community to initiate the change towards more socially responsive decisionmaking have generally taken the following three steps.

First, business leaders have begun to recognize that the relationship between business and the society is undergoing change. As early as 1973, Dr. H. J. Abs, chairman of the board of the Deutsche Bank, suggested:

New values are increasingly recognized in the general public; they indicate the changes which occurred in the past. These changes demand a closer integration of business in society. The societal dimension is dominating our discussions, and business and its performance will be measured according to these demands by society.

He reiterated this theme in numerous speeches and publications; for example, suggesting in his book on the integration of social responsibility and economic success:

If business leaders want to live up to their responsibility in day-to-day decisions it will be increasingly important for them to go beyond the qualification for mere economic decisionmaking which has been a determining factor so far, and develop a feeling for the changes and demands in the social environment. Consequently, the total responsibility vis-a-vis society has to guide their decisions. The continued existence of our economic and social system depends to a significant extent upon our ability to integrate social responsibility and economic goals.

Statements by other prominent businessmen, the President of the Federal Republic of Germany, the Chairman of the German Association of Trade Unions and representatives of business, employers and government point in the same direction.

The second stage has involved defining the concept of social responsibility through broadly based goals and statements of purpose and

through discussion of the social role of business corporations in specific terms. Approximately two hundred of the largest corporations in Germany have already developed formal statements integrating economic and social goals. Although they are written in very general terms, they are more than public relations strategies. They are useful in resolving conflicts involving corporate activities and serve as a starting point to develop responses to specific economic and social issues. Since these statements are usually developed after intensive internal consultation, and are then brought to the attention of the general public, they are a considerable internal stimulus to move from mere rhetoric to the development of specific policies in detailed areas of social concern to the business corporation.

The third, and most advanced, stage has involved experimentation with changing the overall management system to integrate social considerations into daily business decisions and operations. Though only a few companies in Germany are currently pursuing such a broadly based change in the overall management system, considerable experimentation and conceptual work already is underway to help those moving from stage two to three make the transition in an organized and effective manner. It is anticipated that such a change should take place in the fields of business forecasting and planning, accounting, reporting and performance evaluation, with second order consequences for marketing strategies, personnel selection, leadership style and organization, production program, production processes, and overall investment and siting policy.

Generally speaking, German business corporations which have recognized the need for change and are prepared to accept the new social role and responsibility are currently focusing predominantly on stage two and are gradually moving toward the more comprehensive and elaborate concept of change which is indicated by stage three. The political environment has been willing to accept and promote experimentation in this area, providing a stimulus for attempts to convert the notion of corporate social responsibility into a practical and operational concept for the business corporation in Germany. There has been a broadly based discussion of the ethical dimension of business, research on the development of a solid data base on corporate social responsiveness, broadly based experiments in the field of corporate social plan-

ning and reporting, as well as the search for concepts and strategies to evaluate business social performance.

All the developments outlined above indicate that in the Federal Republic of Germany, as in other industrialized countries, the discussion on the social responsiveness of business has progressed from the initial phase in which businesses were increasingly recognizing their new role to a phase of planning and action. Planning and action, however, require a concept to integrate as far as possible the social cost of regular business activities in decisionmaking, and, at the same time, to realize that a contribution to the solution of other social problems may be required. A rational concept for social involvement on the part of the business community, therefore, requires:

- information on the social impact of its regular business activities, as well as information concerning general social problems perceived to be important to the specific company;
- information on various options and their implications for manpower and budget requirements;
- information on what has been achieved in the areas chosen to be part of the social responsiveness strategy of the corporation.

Obviously, the traditional information system, tailored to the need for business economic performance, is not designed to generate this kind of information. The same is true with respect to the traditional external reporting, which focuses on economic performance. Therefore, if corporations are seriously considering developing a rational approach to social issues, the initial and most fundamental step is to develop a data base to help management understand what the problems are and what can be achieved when manpower and financial resources are allocated for the solution of problems.

Beyond this internal aspect, social reporting plays an important role in the external control of a corporate activity by providing a basis to assist those outside the corporation in evaluating the impact of business activities. External social reporting could fulfill this role in the same manner as external financial reporting is serving as the basis for society's control over economic activities on the part of the business community.

The beginning of the discussion on social reporting as an instru-



ment for defining and portraying the changing role and task of business corporations in society coincided with the initiation of the discussion on corporate social responsiveness in the early Seventies. The first articles to appear in Germany were of a predominantly theoretical and analytical nature. Their main objective was to describe initial achievements in the United States and to transpose them to the sociopolitical and cultural conditions in Germany.

The discussion of the general desirability of corporate social accounting and the need for a sound theoretical basis is subsiding, indicating that after the usual initial attention cycle has run its course, the period of active work has begun. In other words, both in research and in management, attempts are now being made to apply and further develop what is practical. There is clearly a great willingness in the business community to participate actively in the learning process. Credit for the initial development of social reporting is mainly due to researchers who in close cooperation with business first proposed a variety of theoretically conceivable approaches. Now, the questions in the foreground—standardizations, the possibilities and constraints of integrating social cost and benefits into specific reporting schemes, and the problems of measuring and describing social benefits—are predominantly being discussed in working groups primarily composed of business managers. Intensive work is being undertaken in several corporations by a few research teams to bridge the gap between the needs of management and the desire of academic research to produce coherent, comprehensive and theoretically well-grounded concepts. The goal behind these experiments is twofold: (1) to test the practicability of the measurement methods and of the techniques of integrating and presenting relevant information in a suitable reporting scheme, (2) to discover the information needs of the various constituencies or “stakeholders” of a company with respect to the social impact of its activities.

## SOCIAL REPORTING IN GERMANY: CONCEPTUAL APPROACHES

Social reporting models developed during the past eight years of research in Germany can be basically classified into three different ap-

proaches: the integral welfare-theoretical approach, the social indicator approach, and the goal accounting and reporting approach.

## Welfare Theory

The integral welfare-theoretical approach is based on the long tradition of German economic theory in the field of welfare economics. The overall intention is to develop an integral assessment of all activities of the business corporation from a societal viewpoint. The general objective of this group of contributions to the theory of corporate social reporting is to construct, in analogy to the concept of financial accounting and reporting, a social accounting and reporting concept which comprises a societal profit and loss statement as well as a social balance sheet. In this respect, the overall concept is quite similar to what was proposed earlier by Clark Abt and his associates in the United States. The final goal of this effort obviously is to arrive at some statement of net social benefits or net social costs attributable to the activities of the firm.

The major problem with this approach remains one of measurement and evaluation. The question of intertemporal and interpersonal comparison of utility has not yet been solved by economic theory. These concepts, therefore, are predominantly of academic interest, providing a framework of reference and suggesting an ideal toward which one could strive. On the practical level, however, their impact thus far has been rather marginal.

## Social Indicators

The second approach, the social indicator concept, basically follows the same lines as the welfare-theoretical approach, though referring to a different concept and theory in attempting to link the performance measurement of a corporation to the theory of social indicators. The effort in this field is to develop social indicators on the level of the firm and to measure the firm's contribution to the overall quality of life in various specific areas. The basic advantage of this concept is that it avoids all the difficulties involved in the welfare-theoretical approach with respect to the development of a common de-

nominator and permits the measurement of the diverse aspects involved in the social impact of business activities in technical terms.

Parts of this concept have been used by corporations in several countries, among them First Minneapolis Bank in the United States and Singer S.A. in France. It has also provided the theoretical basis for several social reports of German corporations (STEAG, Saarbergwerke and others). But the concept still suffers from one basic theoretical drawback: the lack of an overall theory of social development. There is no basis for a comprehensive system of social indicators to be used as yardsticks for evaluating the performance of business corporations in various fields of social concern.

### Goal Accounting and Reporting

The third concept, labeled goal accounting and reporting, tries to avoid the disadvantages of the previous two concepts: the impossibility of arriving at a common denominator permitting a comprehensive assessment of the net social benefits or net social costs of companies' activities associated with the welfare-theoretical approach, and the arbitrariness and lack of comprehensiveness of the social indicator approach. Instead, goal accounting and reporting attempts to build on the long-standing business practice of establishing economic goals and judging performance in relation to their achievement. The basic concept is to split the overall process of evaluating business social performance into two distinct but interrelated parts: the selection of social goals on the one hand and the reporting and assessment of companies' performance according to those goals on the other hand.

According to this concept, corporate management selects its "social markets" independently by studying the social environment, just as it studies developments in the economic and technological environment. It then chooses select areas for activity and attempts to reduce the social cost of its regular business operation, to increase the social benefits of its activities, and to contribute to the solution of overall general societal problems in which it believes it can generate the most recognition and acceptance by the various stakeholder groups. The corporate reporting system states the specific objectives for a performance period, the financial and manpower resources allocated

to the solution of the problem under consideration, the achievements for a performance period, and the problems left to be solved.

Compared to the social indicator approach, this concept has the advantage that indicators used to report on companies' achievements are not arbitrarily selected but are derived from the specific goals and objectives established by each company. The concept also limits social reporting to those areas where a company is seeking to improve, avoiding a potential pitfall of the other two approaches, which provide no conclusive reason to limit the scope of reporting.

Goal accounting and reporting also has the advantage of integrating traditional financial or economic reporting and social reporting. Economic and financial goals are considered to be subgroups of overall company goals. Economic and social performance can be reported on and assessed in a comprehensive manner; externally it may encourage the various constituencies to take a balanced view of their demands on the corporation, and internally it may help management to mediate between the various interests in corporate performance.

In order to develop this type of integrated economic and social report, the individual goals of the company must be defined in such a way as to have observable consequences for the various units of the organization. The more general statement of goals and purposes which is found in nearly any company employing advanced management concepts must be transformed into specific tasks for each period considered. This approach centers on unambiguous and specific objectives, such as reduction of emission from one or more production units, rather than the vague societal effects that are difficult to define and harder to measure. The goal accounting approach forces a specification of the firm's economic and societal goals in terms of concrete objectives and tasks for each organizational unit and each performance period. The process of assessing the degree to which the firm has accomplished the goals which it has set for itself produces a document which is internally consistent. Determination of whether the firm has selected acceptable goals is done by comparing the results of its efforts with the expectations of the relevant constituencies.

Its relative practicability has made social goal accounting and reporting a favorite of the three conceptual models among German companies actively involved with social reporting. Some critics have

suggested that the concept provides no guidance on how a company should select its social goals, what criteria should be used to select goals and how priorities should be established. However, the four years of practical experience of the Deutsche Shell AG, the first company to adopt this concept, indicate that the process of selecting specific objectives is a manageable task in the long run, although rather strenuous and time consuming. The other main critical concern with respect to goal accounting is that companies might not be interested in formulating specific social goals as bases for performance assessment but may prefer rather vague goals, permitting a great degree of discretion in reporting as well as evaluating social performance. Again, empirical evidence from firms experimenting with the goal accounting and reporting concept (such as the Deutsche Shell AG, the Koelner Bank and the Migros Genossenschaftsbund, Zurich) shows that these companies are working toward being as specific as possible. Naturally some of the areas are considered to be rather sensitive and are therefore probably not subject to extensive external reporting. In such areas as research and development and company-consumer relations, firms are reluctant to state goals in advance, but use the process for internal monitoring of social performance. The gradual shift in actual business practice from other concepts to goal accounting may provide a data base for a more comprehensive assessment of criticisms.

## CORPORATE SOCIAL REPORTING: CURRENT PRACTICES

Business in Germany is at present pursuing three different social reporting approaches: (1) a broadly based and partially integrated reporting that links companies' expenditures to social benefits; (2) an extension of the traditional reporting of socially relevant information, and, most recently, (3) corporate goal accounting and reporting.

### Social Benefit Reporting

Examples of German corporate social reports employing the first approach are those of STEAG and the Saarbergwerke AG. The first to attempt to relate companies' expenditures to specific societal bene-

fits, they were also the first firms to publish a social report in Germany labeled, "Sozialbilanz," the comprehensive catchword being used as a shorthand notion to describe the various efforts. The first social report was published in 1972. The basic weaknesses of this approach, which became evident with the first STEAG report in 1973, have not been eliminated. Reports using this approach still have difficulties presenting social benefits in a quantifiable form comparable to company expenditures, and social costs or negative consequences of company activities are completely omitted. The particular merit of these reports lies in their pioneering attempt to present at least a reduction of damages and a broad spectrum of benefits to society related to corporate activities. Though detailed aspects of this approach will no doubt be further refined, no significant progress in the reporting of social benefits can be expected until appropriate indicators are available that contain agreed measurement and aggregation techniques.

### Traditional Reporting

The second approach is the more cautious policy of a step-by-step extension of material traditionally collected and sometimes reported, though not in an encompassing framework like a social report. For decades German businesses have collected a variety of data now presented under the banner of social reporting. But this activity was generally restricted to aspects of the relationship between the firm and its employees, whereas many more societal aspects of corporate activities are now being included. In view of the great amount of material that exists, it is not possible to provide a general survey of the development within this conceptual system. To refer only to a few examples, the earlier publications of Rank Xerox GmbH, Bertelsmann AG, and Hoechst are considered to be the most advanced German reports of this kind. A similar degree of professionalism has been achieved, for example, by Roussel Uclaf in France and by several Dutch and Belgian companies.

Although reports employing this approach of incremental extension have been criticized because of the gaps remaining in the information included in these reports, the policy guiding these efforts seems

quite promising, for the reports reflect a cautious inclusion of important social aspects.

## Integrated Reporting

It appears that the third approach may prove to be the most successful in Germany in the long run: the integration of the annual report and social reporting described most appropriately as the already mentioned goal accounting and reporting. The concept was first applied by Deutsche Shell AG with the assistance of the author in its annual and social report of 1975. Similar attempts have been undertaken in Sweden and Switzerland. At the same time several companies in Germany that had used other approaches have decided to move gradually toward goal accounting.

Examples from the 1975 Deutsche Shell report should illustrate basic elements of this approach. The first chapter deals with developments in the overall political, social, and economic environment of the company. The statement of general goals and objectives is presented next. Five coequal goals are stated:

- (1) to supply the consumer with goods and services on conditions determined by the market;
- (2) to develop new applications of techniques and products;
- (3) to achieve a reasonable return on investment;
- (4) to consider the interests of employees;
- (5) to pay regard to the general public welfare.

The statement of general goals is followed by a description of specific goals, and a summary of achievements in each goal area, including the resources used, followed by a discussion of future plans with respect to each objective.

It should be noted again that financial and economic performance are reported in exactly the same manner as other goals. Currently the company is attempting to develop a comprehensive structure of goals linking medium-term policy statements to overall goals, and is developing specific objectives within those broadly defined program policy statements. Both policy statements as well as specific objectives are

published regularly, with a few exceptions, for example in the research and development and marketing fields.

The Deutsche Shell Annual and Social Report 1977 contains a significant new development: a period of considerable financial losses led to the inclusion of an intensive discussion of priorities in the social field. The achievement of a reasonable return investment as a goal will therefore receive more attention in the forthcoming performance period than other goals. At the same time, activities in the consumer affairs goal area shifted from consumer protection issues toward serving as a means of achieving short-term financial goals. The report clearly indicates the dilemma of corporate management in this situation and argues for an interim change in priorities with respect to the different goal areas and the various interests represented by constituencies. However, the temporary nature of this change in company policy is emphasized.

### Suggestions for Improvements

Organized efforts to develop consensus and standardization of social reporting in Germany are expected to result in more widespread use of goal accounting and reporting. In the summer of 1976, seven leading corporations formed a study group on practical aspects of social reporting (Arbeitskreissozialbilanzen Praxis). The intention of the study group was to develop recommendations for the content and formal structure of social reporting for the use of companies getting involved in this field. The objectives were to increase the comparability of information by suggesting common terminology, indicators, and schemes of reporting, and to provide the general public with a basic document for evaluating companies' social reports.

In guidelines for social reporting published in April 1977, the study group suggested the following goals to be achieved by social reporting:

1. Formulation of goals and measures relevant to social concerns and corporate interests, as well as the collection and systematic presentation of performance and its effects in order to extend the corporate planning and control mechanism into the social sphere.



2. Information of all groups or persons interested in the social performance of the corporation (e.g., employees, investors, and the general public) on the extent of the development of socially relevant activities and expenditures of the corporation as well as a description of these activities, and, as far as possible, a quantification of the effect (output) of expenditures for socially relevant activities (input).

With respect to the content of the social report, the task force suggests the following three elements:

1. the social report (Sozialbericht): a primarily narrative presentation enriched with statistical material of the goals, actions taken, and achievements in areas of social concern.
2. the value-added statement (Wertschöpfungsrechnung): an indication of the distribution of net value-added generated by the corporation to the various constituencies (employees, shareholders, government, the company itself, etc.).
3. the social account (Sozialrechnung): a quantitative presentation of all societally-related corporate expenditures in the reporting period as well as the company's revenues which are socially related and directly measurable.

A study conducted by the author in 1978 in preparation for this article indicates some progress. The survey and content analysis focused on reports of 14 of the 20 corporations currently issuing in-depth social reports on a more or less regular basis in Germany. Most of the reports were produced by large transnational corporations, including firms in the chemical and petrochemical industries, mining, banking, publishing, food processing and consumer goods.

The analysis found that six companies out of 14 are reporting in an integral manner as part of overall performance reporting. The others issue specific reports exclusively focusing on company performance in the business-society field. Just two companies are currently pursuing the goal accounting and reporting concept, though several stated in their reports that they would move toward such reporting. Five companies are following completely the recommendations of the study group on practical aspects of social reporting, while others are using just one or two of the elements of the concept suggested by the study group.

## POLITICAL CONSIDERATIONS: GERMANY AND OTHER COUNTRIES

Reporting on corporate social performance in Europe has been a largely voluntary activity of a relatively small number of companies. However, since a consensus appears to be emerging on the usefulness of social reporting as a tool to increase business social accountability and performance, the idea of mandatory social reports is increasingly becoming the subject of political discussions in several European countries.

A variety of arguments can be made for legally requiring social reporting for at least large corporations. Though the rationale for or against legislative requirements varies between the different countries involved, generally speaking the following arguments have been made in favor of mandatory social reporting:

1. Legally required social reports would force those corporations which have already drafted internal reports to make the information publicly available.
2. It would force the majority of corporations still rather reluctant to get involved in any kind of social reporting to start to generate this information immediately and report on their social performance.
3. Only a mandatory social report would generate enough information to permit external evaluation of the social performance of business on a comparative basis.
4. A mandatory social report would promote further standardization, another prerequisite for external evaluation and feedback.
5. Finally, only mandatory social reporting would force companies to stop viewing social reports to the general public as a public relations activity. It would make companies take a serious look at their social performance and increase the pressure on management to become actively involved in reducing the social cost of the regular business activities.

Arguments for continuing social reporting as a voluntary activity are basically the following:

1. Despite the experience gained over the past 10 years, the

development of corporate social reporting still must be considered to be in its early stages. No consensus has been reached on overall reporting schemes, specific indicators, or other technical matters. Legislative requirements will seriously reduce business's willingness to engage in further experimentation to improve the state of the art and will convert social reporting into a routine statistical collection function.

2. Legislation would have to be based on the current state of the art, which suffers from both theoretical and practical limitations. Abstaining from legislation would permit business to continue experimentation with a variety of approaches which may prove more effective than what has been developed up to now.
3. Abstaining from legal requirements would permit various constituencies of business corporations to specify further their interests in corporate social reporting in terms of the variety of conceptual and methodological approaches available. Encouraging continued voluntary experiments would then permit the various groups which are interested in monitoring corporate social performance to engage in discussions and negotiations with business. This process already seems to be under way, as exemplified by the attempts of German trade unions to prepare critical evaluations of and responses to company reports.

Individual corporations as well as business organizations thus far have stressed the voluntary character of corporate social reporting, taking a strong stand against legislation. So far, trade unions have been content to work on their own concepts of social reporting and to negotiate directly with employers over the content of social reports. They see little advantage at present in freezing the state of the art. It is more difficult to predict developments in the long run. But if a consensus does develop for legislation, companies that have been involved with corporate social reporting will be in a favorable position to influence the final form the legislation takes.

## Germany

The development of legislation on corporate social reporting in other European countries as well as intensive experimentation by some

European companies is being used to support arguments that social reporting should be required in the Federal Republic. However, except for some discussion in the German Commission for the Reform of Company Law, no significant move toward legislation can be reported thus far.

Political parties in the Federal Republic of Germany have remained relatively silent with respect to mandatory corporate social reporting. A number of representatives of government have expressed a favorable attitude toward the practice as well as other efforts to increase corporate social responsiveness. But there has been no major political debate, a situation which is surprising both because of the closeness of policymakers and business (for example, E. Pieroth, a member of Parliament, is at the same time chief executive of a firm that has been a pioneer in social reporting) and because social reporting has been very much a political issue in other European countries. The German government recently completed an inquiry in the Federal Parliament about future actions concerning corporate social reporting and concluded that legislative action is not now appropriate.

Individual corporations and business organizations thus far have stressed the voluntary character of corporate social reporting, taking a strong stand against legislation. They are primarily arguing that legislation would stop experimentation and thus stifle further progress. Though labor unions are currently working on developing their own concept for social reporting, they seem to prefer to work directly with business and have so far not advocated any legislation in this field.

In the short run, legislation requiring corporate social reporting would cause a loss of interest in experimenting with the concept on that part of the business community actively engaged in it thus far: The advantages of being an innovator in broadening the corporate management system and developing new forms of external reporting would disappear. In addition, mandatory social reporting might cause business to change its view that social reporting is a valuable learning experience. Labor unions are obviously also interested in extending the experimental phase, arguing along similar lines as corporations. An introduction of legislation now would interrupt efforts by unions to develop concepts for corporate social reporting which correspond to their specific interests. Therefore, at present they prefer direct negotia-

tions with the companies involved.

However, the situation may be quite different in the long run. Companies involved in corporate social reporting could use their experience to pass a law in accordance to their interest, if they perceive legislation as unavoidable. In such a framework, the Study Group of Practical Aspects of Corporate Social Reporting could serve as a lobbying agency in the business community.

Unions also may be interested in mandatory social reporting in the long run, particularly if the number of companies experimenting with the concept on a voluntary basis remains rather small and those publishing their reports even smaller. If the quality of work life other than increased wages and leisure time becomes more important in negotiations between employers and unions, a solid data base would be needed by both business and unions. This in turn could persuade unions to lobby actively for the publication of such data, the use of the standardized approach, and the certification of the data by an independent body or institution. Finally, if the rate of economic growth slows in the future, business and unions may find common interest in emphasizing the qualitative aspects of work life. A mandatory social report could be used to indicate problems to be solved and achievements produced by their negotiations, and to communicate them to the various constituencies. In this situation, the strategy of mandatory social reporting could even be in the interest of government.

## France

France has become the first European nation to adopt legislation that specifies the content of social reports. In July 1977, the French Parliament passed a law (*Journal Officiel de la République Française*, July 13, 1977) requiring a mandatory social report ("Bilan Social") to be published by all companies employing more than 750 employees. The first social report must be published in 1979, covering actions for 1978. As of 1982, the legal requirement will be extended to include companies with more than 300 employees.

Within four months before the end of the year covered in the "Bilan Social," the employee work council of the company must be

given an appointment to discuss the proposed content of the social report. When a company comprises various independent entities (établissements), each work council at the entity level will discuss the proposed report and pass its comments on to the central work council. The central council then must meet and formulate an opinion on the social performance of the corporation. Management may be required to modify the report to take into consideration the opinions expressed by the work council or councils. The final version of the social report then must be submitted to a representative of the Ministry of Labor and distributed among the shareholders. It also must be made publicly available upon request.

In the specific decree of December 1977 (Journal Officiel de la République Française, December 10, 1977) the government specified that the social report must cover the following subjects:

- employment,
- salaries and social charges,
- hygiene and job security,
- other working conditions,
- training,
- industrial relations, and
- other relevant social arrangements.

For each of these sections, the information to be provided is specified in great detail.

The mandatory social report in France focuses exclusively on the company-employee relationship, an area which is not only of major importance to the social performance of the corporation, but also a field for which a variety of indicators has already been developed and is generally accepted.

The French government hopes that the social report will become an instrument of information and planning. However, thus far, the law has not been welcomed by other parties involved. The employers regret the haste with which the law was prepared and resent the burden of providing an enormous amount of additional information on a yearly basis. The trade unions accuse the government of entertaining

the illusion that this instrument will change the conditions of the workers. Some even label the law as a political demagogical exercise intended to mislead the workers. From a research perspective, one has to add a few concerns with respect to conceptual progress still needed which may be severely altered by indicators and reporting schemes prescribed by legislation. The same reservation must be stated with regard to the development in those areas of corporate social accountability which have not been included in the law, for example, company-consumer relations and the overall impact of a company's activities on the physical and social environment.

## United Kingdom

It is too soon to know for certain, but the United Kingdom may be heading in the same direction as France. In a document called "The Future of Company Reports" presented to Parliament in July 1977, the Secretary of State for Trade stated:

In recent years there has been increasing public interest in and discussion of the role of companies in societies and their wider responsibilities beyond those toward shareholders and creditors upon which company law has hitherto been based. . . . Acknowledgement of the wider responsibilities of companies has led to suggestions that the content of company reports and accounts should be extended to reflect the wider accountability of the directors of companies and to cover the interest of others besides shareholders to whom the reports are at present addressed.

The document suggests that companies be required to include in annual reports statements of value added, employment, and energy use. The government would limit such reporting to corporations employing more than 500 employees or having a sales volume of 5 million pounds or more. Although the proposed legislation does not seem to be on top of the political agenda, Parliament may discuss it in the forthcoming months. Beyond this legislative approach, experimentation with social reporting on a voluntary basis has been rather limited in the United Kingdom.

## The Netherlands

Social reporting by corporations is widespread in Holland, even though it is not required by law. The harmonious nature of Dutch society and the legal requirement that Dutch companies provide regular information to employee work councils concerning recruitment, remuneration, training, promotion and dismissals have undoubtedly encouraged companies to develop social reports.

Dutch companies have an uncommon perception of the need to recognize and respond to diverse constituencies. They have been actively encouraged to develop social reports by Dutch business associations and by trade unions. Experimentation has also been stimulated by a prize offered for the best social report, which was granted in 1977 to N.V. Heidemaatschappij Beheer, a firm located in Arnhem. A rather detailed jury report specifies the criteria to be used in the evaluation of social reports and reiterates the importance of social reporting for the Dutch business community and society.

Reporting by Dutch firms is prolific, but the scope is narrower than in Germany, both with respect to the areas covered and the information provided. Dutch firms concentrate on the internal environment and company-employee relations; they do not give information on other areas of major social concern, such as the impact of the company's activities on the physical environment or company-consumer relations. Reporting by Dutch firms is largely narrative; it does not provide detailed statistical information, including time series information or data on industry-wide performance as a basis for comparison. This is even true of the social report selected as the best in 1977. Two recent studies of reports issued by Dutch companies have been quite critical of the selective and non-quantitative nature of reports issued by Dutch companies.

## Sweden

Despite the very different political culture, the development of social reporting in Sweden seems rather similar to Germany. Research groups are cooperating with firms to develop indicators and reporting



schemes, and several companies have already published social reports based largely on the goal accounting and reporting concept. As in Germany, the internal use of social reporting is stressed by various Swedish companies and is also an important goal of research. No visible move toward mandatory social reporting has taken place in Sweden, nor is it envisioned in the foreseeable future.

### Belgium

In Belgium, developments thus far can best be described as a combination of the German and the French approach. The heavy emphasis on the work environment as a key element of reporting and the perception of the employees as prime constituents for social reporting seems quite similar to the French situation. On the other hand, the focus specifically on social planning and reporting in companies such as Belgian Shell points toward the conceptual development of goal accounting as it is currently emerging in Germany. The potential of mandatory requirements for social reporting is currently being explored on a very informal level. However, no major move toward legislation is expected in the foreseeable future in Belgium.

### Norway

Norway recently adopted new legislation to require companies to report on a number of issues of social concern, particularly the work environment. In contrast to French legislation, the law is rather flexible. It requires the publication of a social report, but does not specify the content in detail. The Norwegian law is expected to stimulate considerable experimentation and to provide enough information on social performance to permit comparative evaluations on an industry-wide basis.

### Spain

A quite interesting development is currently taking place in Spain. In an attempt to move toward a carefully designed reform of business's

role in society, the Spanish government, individual companies, and business associations are conducting detailed examinations of the experience in other European countries. They are covering a wide range of topics, including the German concept of workers codetermination (*Mitbestimmung*), and are putting a heavy emphasis on the importance of corporate social reporting as a means to increase social responsiveness and accountability on the part of corporations. In a December 1977 survey of chief executives of leading Spanish corporations, 43 percent mentioned that their companies are planning to work on corporate social reporting. Another 18 percent said that work already is under way. All chief executives felt that there will be a considerable expansion of corporate social reporting in Spain in forthcoming years.

## AGENDA FOR THE FUTURE

Even with recent advances in Germany and elsewhere, it must be admitted that the whole notion of corporate social reporting, as well as the techniques of corporate social accountability, is still in the early stages of development. Despite significant research efforts throughout the world during the last decade, a system which satisfies all the expectations of business, its various constituencies, and the research community has not been found. This, however, should not be surprising or discouraging, given the complexities and the sensitivities encountered in the field of corporate social reporting.

The most important aspect of future development of corporate social responsiveness and accountability in Germany, as in all other countries, is the need for experimentation. Legislation or discussion of legislation should merely be considered a stimulus for promoting such experimentation rather than an effort to prescribe existing methods.

Looking into the future from a German perspective, it seems worthwhile to distinguish between developments already envisioned based on current interests and orientations, and those which are desirable from a conceptual point of view.

In the first category, the following five subject areas already can

be envisioned as the focal points of further experimentation:

1. A broad implementation of goal accounting,
2. Further development of indicators,
3. Efforts to increase the comprehensiveness of data presentation,
4. Empirical research on the information needs of various constituencies,
5. Efforts toward standardization of reporting.

Beyond this, experimentation in the following fields seems to be highly desirable, based on research needs stimulated by past experience in Germany:

6. Expansion of experimentation, in industries not involved yet, specifically into the service sector,
7. Research on social measurement as an internal management tool,
8. Theoretical research on the salience of social reporting for the overall economic system.

## Goal Accounting

Increasingly, companies experimenting with various concepts of corporate social reporting in Germany are turning to the goal accounting and reporting approach as the prime concept for further experimentation. The theoretical advantages of this concept are being recognized. Broadening the experimentation would provide empirical evidence in future years to determine if this concept will bring about the additional advantages for business and its constituencies which are suggested above. The further use of goal accounting and reporting would cause a viable distinction of developments in Germany and probably Sweden on the one hand from the situation in France, Holland, and Great Britain, on the other. But it would also bring it closer to concepts considered to be viable extensions of corporate reporting by a variety of international organizations, including the Organization for Economic Cooperation and Development, the United Nations and

the European Economic Community. Moving toward a stronger emphasis on goal accounting also would require extensive experimentation with social forecasting in business, to assist business in screening the social environment and to develop as comprehensive an overview of social priorities as possible. At the same time, it would require further exploration of ways to include the interests of the various constituencies in the process of setting specific operational goals for a performance period.

### Indicators

The development of indicators has thus far focused on company-employee relations and to a lesser degree on the impact of corporate activities on the physical environment. Research and further experimentation should emphasize two other areas of social concern to the business corporation: company-consumer relations and the linkage between company activities and the social environment. In this field the state of the art is far from being satisfactory, as is indicated by the lack of information in existing social reports throughout Europe. Similar methodological and conceptual development and experimentation seems necessary in the field of company-supplier relations, though this does not seem to have a prime political significance.

### Data Presentation

Even a very quick glance at the reports published in all countries thus far indicates the need to broaden the use of data. Most social reports are still greatly influenced by a traditional public relations philosophy. The enormous amount of puffery and selective reporting clearly indicates the need for more comprehensive use of data. Wider use of goal accounting and reporting may improve the situation, but it is still necessary to emphasize independently the need for more comprehensive use of data in the social report. Current experiments are attempting to develop an overall comprehensive format, reporting briefly on current goals, activities, expenditures, performance, and goals for the forthcoming period. This schematic overview of corporate

social performance should be supported by an extensive narrative discussion of why specific goals have been chosen, why goals have not been achieved, or why the corporation may have changed priorities during the planning period.

### Information Needs

The content of existing social reports is mainly based on management's perceptions, or those of the research community, of the information needs of traditional as well as emerging constituencies of the corporation. Research on information needs of various constituency groups is needed to assure that current perceptions are accurate. This may be accomplished by a variety of empirical social research techniques, ranging from large-scale surveys and questionnaires appended to published social reports, to intensive discussions with small groups representing various constituencies. The idea is to evaluate whether existing reports are serving their information needs, to identify areas in which additional information needs are emerging, to specify sections which could be omitted due to lack of interest, and to discuss the overall format and concept of presentation.

### Standardization

Though the consensus on performance areas to be covered and indicators to be used in reporting and evaluating corporate social performance seems rather high in Germany, further standardization of reporting is needed. Prime candidates for further standardization include the two areas where reporting seems rather similar with respect to all dimensions involved: company-employee relationships, and the impact of business activities on the physical environment. A voluntary agreement on indicators to be used and areas to be covered in fields not required by law seems both desirable and achievable. Further standardization would permit the monitoring of corporate social performance on the basis of time series information and also between different companies within a specific sector or, in some areas, even on an industry-wide basis. Improving the basis for comparative evaluation by

further standardizing social reporting would significantly enhance the credibility of business communication with the various constituencies.

### Broader Industry Participation

Social reporting in Germany has focused mainly on industrial companies, specifically in the chemical and petrochemical industries. With the exception of two banks, the service sector has not actively engaged in experimenting with the concept. Participation by the service sector (for example, banking, retail trades, insurance) should be encouraged. The recently issued Social Report by the MIGROS Genossenschaftsbund Zurich, the largest conglomerate in the Swiss service industry, may serve as a basis for discussion and experimentation.

### Management Tool

In Germany, companies involved with corporate reporting have focused primarily on external reporting. The use of social accounting and reporting for internal purposes, as a management tool, has not been explored very much. However, in the long run it seems to be an important element of the whole notion of corporate social responsiveness: Business social performance cannot be improved in an organized and consistent manner if external reporting is not matched by an internal system of serious planning, monitoring, and rewarding performance in this area, analogous to that established for economic and financial performance. Research on the extent to which corporate social performance can be dealt with in the framework of staff work and the extent to which it must be considered a line function is needed to build a solid basis of knowledge on how to implement company programs to improve corporate social performance. Research is also needed on how to integrate elements of social accountability into the performance appraisal of middle and lower management. Knowledge in this area is very limited and unsatisfactory, based on a few uncoordinated experiments. A large scale and rigorous research effort seems necessary to develop a sound understanding of how to restructure the management

system of business corporations to ensure that social impacts are managed as rationally as economic activities.

### Social Performance Theory

It is widely assumed that social reporting can improve corporate social performance and also help to avoid detailed governmental intervention. In other words, it is assumed that social reporting provides net social and economic benefits to the society as well as the individual firm. There is a need to go beyond mere supposition and to conduct research into the economic and social value of social reporting. Such research should explore the potential of corporate social reporting to change business behavior, the overall implications of an increased social accountability and responsiveness on the part of the business corporation, and the interrelationship between economic and social performance. Such theoretical research could also serve as an important element in the discussion of mandatory social reporting versus voluntary disclosure on social performance, and it might shed some light on the potential need for special institutions to monitor and assess business social performance.

Increasing experimentation and research in all these fields would contribute significantly to a better understanding not only of the political merit of the concept of corporate social accountability, but also of how to manage and evaluate corporate social performance. These questions, which are perceived to be of central importance to the development of the overall economic system, cannot be answered by academic research alone. It definitely requires the involvement of corporations in exploring new avenues in a truly entrepreneurial spirit. Currently the indications are that there are enough corporations in Germany interested in the concept and willing to undertake such experimentation to make the effort worthwhile. Since the overall political climate tends to be relatively favorable to such experimentation, Germany may continue to contribute significantly to improvements in the state of the art. ■