
THE NEXUS BETWEEN TRANSPARENCY AND RECORDS MANAGEMENT: QUALITY OF MULTINATIONALS' ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORTING

TRANSPARENCY MEETS RECORDS AND INFORMATION MANAGEMENT

Transparency has become a widespread principle for governance and accountability. It refers to the availability of information to the public and openness about an organizations management, rules, regulations and decisions. But any disclosure of information is only as good as the quality of the records to which it provides access or on which the reports are based. There is a wide consensus among information professionals that the principles and practices of records and information management support companies in complying with financial disclosure regulations. But how can the same principles and practices support the transparency of multinational companies' performance in reporting on environmental, social and governance (ESG) performance? This paper begins by briefly discussing the influence of multinationals on today's society. Then it discusses the idea of transparency as a route to building trust and better accountability, before going on to explore how records and information management can render ESG reporting more credible, reliable and measurable.

MULTINATIONAL COMPANIES WITHIN MODERN SOCIETY

Academic debates reflect the impact of globalization on society. Globalization, technology and communication developments are seen as the driving factor behind the changes in modern society. Anthony Giddens's statement on modern society, *The Consequences of Modernity*, provides a analytical and theoretical framework describing the relations between large and complex organizations and society and the impact of these on society. He defines globalization as the "intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring miles away and vice versa"¹. He discusses the influence of modern organizations on society: "Modern organizations are able to connect the local and the global in ways which would have been unthinkable in more traditional societies and in doing so routinely affect the lives of many millions of people"². Giddens further underlines the importance of trust and trustworthiness in modern society, in particular as modern society brings along novel risks and hazards. "Despite the high levels of security which globalised mechanisms can provide, the other side of the coin is that novel risks come into being: resources or services are no longer under local control and therefore cannot be locally refocused to meet unexpected contingencies"³. In Giddens elaboration on trust and risk reliable information from global organizations to society plays an

¹ Anthony Giddens, *The Consequences of Modernity*, Stanford, Stanford University Press, 1990, pp. 64.

² Anthony Giddens, *The Consequences of Modernity*, pp. 20.

³ Anthony Giddens, *The Consequences of Modernity*, pp. 126.

important role. Fragmentary or inconsistent information has an impact on trust by individuals and society on global organizations⁴.

According to Thomas Friedman in his books, *The Lexus and the Olive Tree*, and, *The Word is Flat*, globalization is shrinking the world into a small space. Multinational companies thus benefit from this development and have expanded their operations globally, not only by opening production factors in low wage countries but also outsourcing headquarters operations⁵. In Friedman's view multinational companies increasingly influences today's society, and because of their great investment in countries in which they operate, replace more and more public institutions⁶.

Bovens's book *The Quest for Responsibility* elaborates on the growing impact of private organizations in social and political life. He explains the reasons for this and brings forward the following signs: (1) increase in the number of corporate bodies, (2) increase in the number of law suits to which a complex organization is party, and, (3) increase in attention to complex organizations in the media⁷. Like Giddens, Bovens looks at the risks that the activities of complex organizations bring for individual citizens or for the society as a whole. "Complex organizations bring new products into the world based on production processes whose effect, or controllability, is not always known or predictable"⁸. He says that "a number of corporate risks, have such enormous consequences that their prevention readily becomes a centrally important matter of public interest"⁹.

Prakash Sethi, a professor and president of International Center for Corporate Accountability, is concerned about the growing impact of multinational companies on society and individual citizens. "In a market economy, business institutions are an integral part of the social system, and their actions have a profound influence on other societal institutions. The nature and scope of international business, along with the role of multinational corporations, have witnessed strong growth during the past two decades.¹⁰ In his book *Setting Global Standards* he discusses guidelines for creating codes of conduct in multinational corporations. In Prakash Sethi's view the public trust in business, especially large corporations has never been lower, and codes of conduct are a necessary tool in re-establishing trust. He underlines however that these guidelines must be seriously implemented by the multinationals, monitored and the results of the independent monitoring must be disclosed to the public.

Some writers even argued that the activities of the multinational companies in many cases have a more profound impact on the lives of people and the shaping and reshaping of cultures than the governmental agencies have.

⁴ Anthony Giddens, *The Consequences of Modernity*, pp. 148.

⁵ Thomas L. Friedman, *The World is Flat: A Brief History of the Twenty-First Century*, New York, 2005, pp. 52.

⁶ Thomas L. *The Lexus and the Olive Tree*, New York, 2000, pp. 207.

⁷ Mark Bovens, *The Quest for Responsibility: Accountability and Citizenship in Complex Organizations*, Utrecht, Cambridge University Press, 1998, pp. 13.

⁸ Mark Bovens, *The Quest for Responsibility*, pp. 18.

⁹ Mark Bovens, *The Quest for Responsibility*, pp. 169.

¹⁰ S. Prakash Sethi, *Setting Global Standards: Guidelines for Creating Codes of Conduct in Multinational Corporations*, Hoboken, 2003, pp. ix.

TRUST CRISIS

Scandals at Enron, WorldCom, Parmalat, Ahold, and Siemens and elsewhere have undermined trust in multinational companies and led to national and international government regulation, such as the Sarbanes and Oxley act in USA and the Eighth Company Law Directive on Statutory Audit in the European Union¹¹. These regulations focus on the financial information of a company.

In addition to concerns about management structure and financial management, the past years have shown a sharp increase in the concern about the impact multinationals have over social and environment issues. The concern over climate change and human rights abuses are among the biggest drivers for a call for disclosure of information on multinationals ESG. Non-governmental organizations (NGOs, for example Transparency International and AccountAbility) and international organizations have initially led this movement by raising awareness, reporting, and by have asking for codes of conduct in these areas for companies and guidelines for the disclosure of non-financial information. Investors and shareholders are also concerned about ESG performance of multinationals and ask for more disclosure. The outcome of a February 2008 United Nations conference in Geneva (Switzerland) underlines the importance of reporting for investors and shareholders “the clear link between disclosure and the ability of enterprises to attract investment also extends to newer areas of reporting, including disclosure of environmental and social issues”¹².

In Prakash Sethi’s view public trust is an economic asset with a market value for multinationals. He says “publicly owned corporations are legally required to generate and disclose financial information. It is hard to argue that they shouldn’t be able to generate and disclose other types of information that are of interest to the public at large. The more corporations follow this example the more common it becomes.”¹³

As well as these external pressures, companies are also facing a strong demand for good ESG performance from their employees. People want to work at a company that has a positive reputation and proven track record of good social and environmental performance¹⁴.

TRANSPARENCY: A KEY PRINCIPLE FOR RE-ESTABLISHING TRUST AND ACCOUNTABILITY

Transparency is a term that is widely being used in business governance as well as that of governments and international organizations. It refers to the availability of information to the public and openness about an organizations management, rules, regulations and decisions. There are various transparency practices, for example regular reporting, open meetings and active dialogues with stakeholders. This paper focuses on disclosure of corporate information. According to David Heald’s theoretical schema on transparency, disclosure or access to information falls under “transparency inwards”, in which those outside an organization can observe what is happening inside¹⁵.

¹¹ The European Union adopted on 17 May 2006 the Eighth Company Law Directive on Statutory Audit (2006/43/EC) which is part of the 2003 Corporate Governance Action plan of the European Union.

¹² United Nations Conference on Trade and Development at www.unctad.org/isar (accessed on 25 February 2008)

¹³ S. Prakash Sethi, *Setting Global Standards*, pp. 219.

¹⁴ Daniel Franklin, , ‘Just good business’, *The Economist*, volume 386, number 8563 2008, pp. 4

¹⁵ David Heald, “Varieties of Transparency”, in Christopher Hood and David Heald (eds), *Transparency: The Key to Better Governance?*, Oxford University Press, (Oxford 2006), 28.

Two recent publications make a strong case for corporate transparency. The authors argue that access to corporate information is a good thing. Transparency contributes to creating trust amongst the public in relation to profit making organizations. By offering the public access to information, it meets the requirements of transparency and accountability, synonymous with good corporate governance. It will enhance the company's reputation and ultimately its market share and sales. The authors underline, however, that it is important to understand that "access to information" is neither interpreted to mean access to corporate information without restraint nor indiscreet and irresponsible disclosure. There are certain circumstances such as commercial confidentiality and privacy in which access to information cannot be provided¹⁶.

Academics, in the context of discussions on transparency and responsibility, push for information rights and more disclosure of corporation information. In his article *Information Rights*, Bovens makes a convincing case for the recognition of a fourth group of civic rights: information rights. He argues that access to information and to information channels should be seen as a primary social good. He argues that a right of access to innumerable documents and policy papers strengthens the process of accountability¹⁷. Although Bovens looks in the first place at access to information from public institutions, he also acknowledges that much of the power exercised in society is no longer concentrated in the government. He argues therefore that the same information rights should apply towards private organizations as well. Bovens is joined in his thinking by other scholars. Bröhmer discusses in his book *Transparenz als Verfassungsprinzip*, the possibilities of making transparency a conventional right¹⁸. In a more recent article Birkinshaw argued that freedom of information is a basic human right¹⁹.

Disclosure and/or reporting of financial information are regulated in national, international and private laws (for example rules and regulations of stock exchanges) and regulations. With regard to non-financial or ESG information, there is less bounding legislation. In France, Denmark, the Netherlands, Norway, Sweden, Belgium, Australia and the UK there are laws requiring companies to disclose some of their impacts²⁰. The UK 2006 Companies Act, for example, introduced a requirement for public companies to report on social and environmental matters. Also there are a number of European Union's transparency directives that require companies to report on ESG. However for the large part ESG reporting requirements are based on voluntary guidelines. International organizations have developed codes of conducts and reporting guidelines for multinational companies as an attempt to prevent and control environmental disasters, human rights abuses and better labor standards, but also to ensure disclosure of information on ESG activities and decisions, and to strengthen the notion of accountability. This includes among others the Organization for Economic Co-operation and Development (OECD), the United Nations Global Compact, United Nations Conference on Trade and Development (UNCTAD) and Social Accountability International (SAI)²¹. The most widely adopted ESG reporting standard by

¹⁶ Adrian Henriques, *Corporate Truth, the Limits to Transparency*, London (2007) and Christopher Hood and David Heald (eds), *Transparency: The Key to Better Governance*, Oxford (2006).

¹⁷ Mark Bovens, 'Information Rights: Citizenship in the Information Society', *Journal of Political Philosophy*, 10, no. 3, 2002, pp. 15.

¹⁸ Jürgen Bröhmer, *Transparenz als Verfassungsprinzip – Grundgesetz und Europäische Union*, Tübingen (2004)

¹⁹ Patrick Birkinshaw, "Freedom of Information and Openness: Fundamental Human Rights, *Administrative Law Review* 58 (1): 177-218.

²⁰ Adrian Henriques, *Corporate Truth, the Limits to Transparency*, London (2007) , pp.85

²¹ The OECD issued guidelines for multinational companies which are recommendations addressed by 38 governments to multinational companies. The United Nations (UN) Secretary General, Kofi Annan, launched in 2000 the Global Compact which brings together multinationals with international organizations. The Global Compact asks companies to embrace, support and enact transparent and

multinationals is the Global Reporting Initiative (GRI). The GRI is a network initiated by the United Nations Global Compact of stakeholders from corporate world, civil society groups and national and international organizations. Its goal is to promote transparency and accountability by developing and disseminating a global reporting framework for organizations to disclose their economic, environmental and social impact.

Companies themselves are aware of the accountability and transparency trend and the public's increased interest in their operations. As a result of the corporate governance legislations and revised stock exchange rules, companies have implemented corporate governance programs. These programs include Code of Conducts and/or Business Ethics Codes which include guidelines on the accurate and timely disclosure of information on the companies' financial situation and performance. To reply to the request for information on a company's ESG activities companies have launched corporate social responsibility or sustainability programs. Annual ESG or sustainability reports are a central aspect of this program.

It is important to consider the challenges that multinationals face when disclosing information. Any disclosure provisions also compete with data protection and privacy regulations. Multinationals have reservations about disclosing information as there are potential risks. One of the most apparent risks for multinationals is that access to records conflicts with internal policies and procedures on commercial confidentiality.

ESG REPORTING AN IMPORTANT ELEMENT OF TRANSPARENCY

Reporting on ESG activities is an indispensable element of corporate transparency and good governance. Many multi-national companies publish social responsibility reports, full of commitments and information on key ESG areas, but critics say that the reports are written for public relations purposes and lack credibility and quality of information. In this context non-governmental organizations following closely the activities of multinational companies have raised concern that companies that have bad environmental, governance or social track records have great sustainability or ESG reports. Others say that the disclosed information does not provide tangible evidence nor is the ESG performance measurable. Also, multi-national companies themselves recognize that the documentation and data in comparison to the financial information is not always very accurate, reliable and verifiable²².

One can distinguish two main traditions of corporate reporting: quantitative reporting, i.e., reporting based on numbers and figures, most commonly used for financial reporting and narrative reporting, i.e., reporting based on a description of structure, activities and decisions (most commonly used in governance) reporting. ESG or sustainability reports are usually a mixture of both figures and text. The financial reporting is measurable and auditable by independent auditors as the reports are based on companies' financial data which are centrally controlled, organized, kept according to

accountable management and operations. Social Accountability International developed SA8000, a social accountability reporting standard for multinationals.

²² Shell Group, *Global Corporate Website: Environment and Society: About our Data* The Hague at: http://www.shell.com/home/content/envirosoc-en/performance/about_our_data/about_our_reporting_data_000407.html (accessed 7 August 2007)

retention policy and centrally located in well established and reliable computer systems²³. The situation is different and more challenging for records on ESG. What is it that makes ESG reporting so difficult? There are various challenges. The scope of non-financial issues is much wider than reporting on financial performance. Related to the scope is the vast number of records documenting ESG performance. As some of the ESG reporting guidelines include a large number of reporting indicators, it is an enormous task to identify the records that provide evidence of these activities. Also the multinationals are often dependent on records of subsidiaries, contractors and suppliers in countries located at a great distance from the Headquarters' offices. It is much more difficult for companies to centrally control and monitor the records of distant locations and apply records management rules and procedures centrally.

RECORDS MANAGEMENT SUPPORTING CORPORATE TRANSPARENCY GOALS

Transparency is a function of the evidential value of the information disclosed in the report which again is dependent on the reliability, accuracy and completeness of records. Any report or disclosure of information is only as good as the quality of its source information. Such reports or information are of little use if reliable and accurate records are not created and managed appropriately. Records are the evidence of actions, decisions and operations of multinationals.

The above paragraph shows the important relationship between records management and corporate reporting. At the core of access to information are records. Records are the evidence of actions, decisions and operations of multinationals. Trustworthy records and good records management are one of the key pillars of accountable and transparent operations and management. Bovens elaborates in his book *The Quest for the Responsibility* on the importance of records management for accountability. He says that in complex organizations allocating responsibility is complicated as many different functionaries at various levels contribute to the policy and decisions of the organization's conduct. Records provided well organized and managed provided the necessary evidence.

Without an effective records management system implementation of an information disclosure and reporting policy will be difficult. If there is no effective records management system, it will be harder to report on the ESG indicators and the information reported is not verifiable and/or cannot be verified. If ESG reports are audited by external institutions, and the source information cannot be located and/or is incomplete and cannot be shown in context with other records and operations, the reputation of the company and its leaders are at risk. Ultimately it will undermine the trust that the public, government and investors have in the multinationals.

Earlier in this paper we have already seen the particular records management challenges multinationals face for ESG reporting. An important aspect of records management which should not be forgotten is the authenticity of the record i.e., the assurance that the record is what it purports to be and has not been altered. In particular when it concerns sensitive issues which can do a lot of damage to the reputation of the company, for example child labor or an accident which caused serious damage to the environment, it is crucial that the record has not been altered. Some multinationals developed global records management guidelines, but they do not find it easy to enforce and monitor them for all subsidiary locations. Unscrupulous suppliers may cheat, keeping two sets of records one for show one for real. Also, compliance becomes an important ESG issue, not only because of the growing number of national and international laws concerning for example

²³ Large multinationals such as ConocoPhillips and Ford Motor Corporation recognize the importance of good records management for accurate financial reporting and for meeting the corporate governance requirements. Both ConocoPhillips and Ford Motor Corporation have included statements on records management, and particular the control of financial records in their business ethics documents

environment but also under some laws multinationals are responsible for the environmental sustainability of suppliers of suppliers. It is very likely that inspections and audits are to intensify in the future with regard to ESG performance. Records will play a key role in these audits.

To address the above recordkeeping issues, the internal process of a multinational need to have strong records management components, including capture of records; management of records in a records management system; identification and appropriate handling and setting aside of a core ESG records to ensure that the appropriate records can be used for the report writing; digital copying of core records to the Headquarters; and a classification system to maintain the records contexts. Further, records retention policies need to be established not just for financial and administrative records but also for operational records and records of subsidiaries. It is also important to include a regular training and monitoring component to ensure not only that the processes are implemented and understood at distant locations.

Whereas the above records management processes refer to the management of the records by the records creator, multinational's also need to factor in the records management processes of the fourth dimension of the Australian Records Continuum model. The fourth dimension of the records continuum model places records in a broader environment. It represents the capacity of a record to exist beyond the boundaries of a single creating entity. This is the environment needed to ensure records are able to satisfy the demands of those not involved with the actions precipitating records creation, capture and organization. The fourth dimension involves ensuring that records are able to be reviewed, accessed and analysed beyond the organization, for the multiple external accountability, historical, cross organizational purposes that are required, for as long as they are required.

CONCLUSION

In this article we have seen the important role of reporting for corporate transparency, and how records management supports ESG reporting. It is important to note that reporting alone will not lead to transparency, but reporting is a strong and widely implemented transparency tool that forms to a great extent the public and expert's opinion on a company's commitment to the environment and society.

Although on the political level there is great consensus that corporate transparency is a must, there are still challenges and room for improvement on the practical and technical levels. As we have seen in this paper, the quality of information and the audibility of the information reported are of great concern to stakeholders of multinationals including investors, NGOs, national and international governments and the public at large, and the multinationals themselves.

The current upward trend in ESG reporting is encouraging but reporting procedures and guidelines needs to be enhanced by including recordkeeping component and/or by further developing these components.

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