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THE ETHICS OF FINANCIAL REPORTING, THE GLOBAL REPORTING INITIATIVE, AND THE BALANCED CONCEPT OF THE FIRM

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Reporting of corporate conduct is crucial for both the companies who send out the reports and the investors, consumers, business partners, competitors, and public agencies who receive and utilize these reports. In their reports companies represent themselves to the public, conveying, explicitly and implicitly, an image of their activities and philosophies, trying to enhance their reputation, and possibly rendering accountability for their deeds and objectives. On the other side, the receivers may check the quality of the reports, needing at least some truthful information for their own decision making and holding the companies accountable for their conduct.

While this describes the general purpose and focus of corporate reporting, many questions

still need examination in light of globalization and recent corporate scandals. How accurate and comprehensive are financial reports? Do they reveal “the substance” of corporate performance rather than hiding it behind a plethora of formalities? How trustworthy and reliable should these reports be? Who is responsible for their veracity? Should companies report not only on financial and economic performances but also on social and environmental performances? In what respects are the latter different from the former, and thus in need of very special approaches and measurement techniques? What features do they have in common? Are there particular challenges for corporate reporting, given the fact of globalization? Are there legitimate differences in reporting among cultures and continents? What

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concepts of the company are involved in various types of reporting? To what extent do these concepts really matter for adequate reporting?

In the following, I attempt to discuss many of these questions.¹ The first part of this chapter addresses the ethics of financial reporting by focusing on the fundamental requirements of transparency and trust, and the responsibilities of the providers, certifiers, and users of financial reports. In the second part, after a brief presentation of the Sustainability Reporting Guidelines 2002, I offer several critical remarks and ask what financial reporting and sustainability reporting can learn from each other. In the third part, I attempt to link the issue of comprehensive corporate reporting to the understanding of the company. The common underlying theme throughout this chapter is the threefold corporate responsibility in the economic, social, and environmental respects and its implications for the concept and the reporting of the company.

THE ETHICS OF FINANCIAL REPORTING

Before the Enron and Andersen scandals, relatively little public attention was paid to the truthfulness of financial reporting. Of course, no one believed every company was beyond any suspicion of misrepresenting its activities. But, by and large, it was taken for granted that the reports certified by publicly recognized auditors sufficiently and accurately reflected companies' financial performances. Recently, however, this confidence has been greatly shaken. Serious doubts and even cynicism about current reporting practices have spread, particularly among investors (who nowadays make up approximately 50 percent of the U.S. population). The ethics of reporting has become a vital problem of the financial sector. This is the case not only in the USA where the "earthquake" of this crisis of confidence broke out, but also in Europe and indeed worldwide.

It would be naïve to assume that this problem could be fixed by tough punishment of CEOs and CFOs alone or by only sharpening the regulatory

framework and strengthening its enforcement. At stake is a much more complex problem that calls for a more comprehensive and sophisticated approach. Truthfulness of and trust in the financial reporting system depend on far more than the actions and decisions of individuals or sophisticated "mechanisms" for the whole system. As the Enron and Andersen events have shown (see Enderle, 2004b), far-reaching failures occurred at the individual (or micro) level of top managers, directors of corporate boards, management accountants, auditors, financial analysts, other employees, and members of supervisory boards and public agencies, including politicians. Yet, it would be shortsighted to blame only individuals. The crisis has also revealed serious insufficiencies at the systemic (or macro) level. The regulatory framework did not prevent but encouraged the establishment of several crucial conflicts of interest (particularly in the auditing and investment industry), the tempting call of which could be resisted only with extraordinary moral power. Many accounting and investment rules were vague, providing insufficient guidance in complex matters. In many instances the enforcement of the existing framework was half-hearted or even totally lacking. Moreover, to expect the financial reporting system to function well by relying solely on the individual "players" and the "rules of the game" would be a grave mistake. The Enron and Andersen cases clearly demonstrate the importance of organizations, with their objectives, structures, policies, and cultures (at the meso level), in influencing individuals and systems. Indeed, other companies in the energy, accounting, and banking industries and the professional associations of the certified public accountants and the investment managers and researchers have, in varying degrees, affected the quality of and confidence in the financial reporting systems.

Therefore, truthfulness of and trust in the financial reporting system cannot be a matter of either personal or institutional ethics alone. Rather, this complex problem challenges and requires both personal and institutional ethics, the latter including organizational as well as systemic ethics. In short, a three-level approach

is needed that pays due attention to the indispensable roles and responsibilities of persons, organizations, and systems (see Enderle, 2003). Consequently, concepts of truthfulness and trust should take this complexity into account. If they are modeled exclusively on the basis of interpersonal relations (as is the case with a vast part of the literature on trust) or of anonymously functioning systems (see particularly sociological approaches), they will be inadequate to capture the core ethical issues of financial reporting.

Trust is generally a three-part relation: A trusts B to do X (see Hardin, 2002, 9 ff.). In the case of financial reporting, doing X concerns truthful reporting not only as a process but also and above all as the outcome of this process. The numbers are expected to be correct, accurate, comprehensive, objective, and understandable and to adequately reflect real processes and states of affairs of the reporting organization. A modern term for such truthfulness is *transparency*, meaning the reporting is “transparent” to the underlying financial “reality”; it does not hide substantial parts of this reality or deceive those who receive and need the reports.

Truthfulness and trust are issues that have shown up throughout the entire history of humankind and have been discussed in all ethical traditions (see Bok, 1999, 2001). It therefore comes as no surprise that they affect the modern financial sector too. Indeed, these core concepts appear to have moved to center stage of attention and importance due to the dynamics and complexity of financial markets, the wide and increasing range of financial instruments, and the dominating role of the financial sector on the whole economy and society at the national and international level. All these new developments offer a myriad of possibilities for false and deceptive financial reporting, which have not been matched with an increasing moral commitment to truthfulness and trust. This discrepancy between the seriousness of the problem and the need to deal with it might be a major reason why the ethics of finance has become an urgent task.

Given the scope of this chapter, only some essential features of the ethics of financial

reporting can be presented. It includes five parts, which, for the sake of introduction, are treated separately but, in fact, are interrelated.

Structuring the Field

For the ethics of financial reporting, it is crucial to have a comprehensive and differentiated view of the field to which ethics should be applied. Financial reporting involves providers, certifiers, and users of financial statements and is the result of complex structures and procedures. It depends on the rules set up and enforced by the governmental and regulatory bodies (at the macro level), the proper application and interpretation of the rules by the providers’, certifiers’, and users’ organizations (at the meso level), and the behavior of the individuals involved in reporting (at the micro level). The structuring of the field (as it relates to the United States) can be summarized in the following matrix (see Table 8.1).

Transparency and Trust

Trust in the financial reporting system is the fundamental requirement for the proper functioning of the system and can be considered a “public good,” from which all participants in the system benefit, but which is being eroded by those who deceive. Trust is based on the truthfulness or “transparency” of financial reporting. This means that the numbers must be honest. They should reflect real processes and states of affairs of the company under consideration in an adequate manner, that is, according to appropriate rules of reporting. Moreover, they should be generated by trustworthy people who are competent and motivated by the knowledge that they are being trusted and by a moral commitment to honor this trust (see Hausman, 2002). In short, transparency and trust are the outcome of a combination of factors at the macro, meso, and micro level.

If financial reporting is inadequate and deceptive, trust will shrink or may even collapse. As a result, investment activities will drop and possibly come to a halt, with far-reaching consequences for

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Table 8.1 Structuring the Field of Financial Reporting

	<i>Providers</i>	<i>Certifiers</i>	<i>Users</i>
<i>Macro level</i>	Governmental and regulatory bodies that set up and enforce the rules (Congress, SEC, FASB, Intern. Accounting Standard Board, boards of accounting)		
<i>Meso level</i>	Companies Firms issuing new securities Investment research divisions Professional associations of accountants and investment researchers	Auditing companies Public Company Accounting Oversight Board (since July 2002) Credit rating agencies Professional associations of accountants and auditors	Investor firms Creditor firms (banks, etc.) Government agencies (collecting taxes, etc.)
<i>Micro level</i>	Corporate management aided by management accountants Board of directors Chief financial officers Investment researchers	Internal auditors External auditors	Individual investors Individual bank employees Government officers Investment researchers

the economy and for individual businesses as well. It is noteworthy that the vital importance of transparency and trust can be argued for from both the perspective of consequences (that without transparency and trust, the system would break down) and the perspective of principles (that honesty should be lived up to for its own sake).

Responsibilities of the Providers

Financial reporting can be trustworthy only if its processes and outcomes are reasonably transparent. Therefore, the providers have a moral and legal responsibility to ensure transparency. First of all, the reporting rules must be conducive to fulfill this responsibility. For example, they have to prevent conflicts of interest that are built into or tolerated by the system, such as conflicts between auditing and numerous nonauditing functions and conflicts between investment research and investment banking. Moreover, they have to set clear standards for dealing with huge information asymmetries to which companies and individuals are exposed in the financial sector. (See Norman Bowie's chapter that deals with the problems of conflicts of interest and asymmetric information.) From the ethical

perspective, it is unfair and thus unacceptable solely to blame the players for wrongdoing when the rules of the game are deficient or misleading or even encourage unethical behavior. (As for the impact of law, regulations, and Supreme Court decisions on financial reporting, see Lerach, 2002.)

Second, the letter and the spirit of the rules can be followed only if the reporting organizations as such embrace this commitment. Corporate governance and culture have to be shaped in such a way that the "substance" of financial performance becomes transparent to the certifiers and users of financial reporting. In support of the companies, the professional associations of accountants and investment researchers play an indispensable role in enhancing the professional ethos by multiple provisions and activities such as ethical codes and ethics training.

Third, the moral responsibility of the individuals is equally crucial and cannot be replaced by mechanism, policies, and cultures. Instead, individuals must follow the letter and the spirit of the rules with competence and moral commitment. Here "moral commitment" is understood in a modest sense—that is, to live up to the ethical principle of honesty in providing adequate

financial statements while being supported by the culture of the employer organization and the regulatory framework. This ethical requirement contrasts with the attitude of moral carelessness (i.e., that “anything goes”) and also differs from the expectation of “heroic behavior.” Under special circumstances, it might be praiseworthy to take a bold ethical stand against a prevailing misleading organizational culture or a deficient regulatory framework (for example, by blowing the whistle). But, in general, the ethical quality of organizations and systems should be such that heroic behavior of individuals is unnecessary.

Responsibilities of the Certifiers

The truthfulness of financial reporting in the complex financial sector should not rely on the providers alone, but must be certified by independent auditors as well. The strict separation of the providing function and the certifying function should be a hallmark of a modern society characterized by high degrees of division of labor and specialization. Here again, with regard to certification, the rules must be such that they lead to the stated purpose: to strengthen rather than impair the independence of the auditors. If there are conflicts of interest built into the system that seriously affect their independence, auditors and auditing firms experience too much pressure to give up their professional responsibility of impartiality. It comes as no surprise that under the present rules in the United States (in June 2002), the principle of independence has been violated in many instances.

Standing at the interface between the providers and users of financial reporting, the certifiers are accountable to the public and therefore can exert their task properly only if they are, and are perceived to be, independent. Conflicts of interest in fact and in appearance should be avoided. Having said this, many difficult ethical issues remain open, which cannot be addressed in this chapter (see chapter by Dunfee et al., “An Ethical Framework for Auditor Independence,” in this volume). Suffice it to underscore that independence can be maintained only if it is an

essential feature of both the personal commitment of the auditors (at the micro level) and the policies and cultures of the auditing firms and the auditing profession as such (at the meso level).

Responsibilities of the Users

Financial reporting is also dependent on the users’ expectations and behavior. If the users as organizations and individuals pay only lip service to the fundamental importance of transparency and tend to place the entire responsibility on the shoulders of the providers and certifiers, the financial reporting system cannot function properly with the necessary level of trust. Therefore, the users have to engage in contributing to the establishment and enforcement of fair and effective rules of financial reporting, which enhance the confidence in the system.

The users of financial reporting, be they organizations or individuals, may focus their attention particularly on three sensitive areas. First, they should distance themselves from the unquestioned belief in financial numbers that has spread in financial markets in recent times and instead seek out and scrutinize the underlying economic basis of those numbers. Second, they should not focus exclusively on short-term financial performance, but adopt a longer-term perspective as well. Third, they may nurture and express more realistic expectations regarding corporate performance and consequently discourage dishonest corporate communications and behavior.

THE GLOBAL REPORTING INITIATIVE (GRI) AND ITS SUSTAINABILITY REPORTING GUIDELINES

Short Introduction

While financial reporting is over 50 years old and currently exposed to increasing public attention and scrutiny, nonfinancial reporting of companies is relatively young. It has taken on a variety of forms in recent years and is far from

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providing a well-established and generally accepted framework. But, compared to the early '90s, considerable progress has been made, particularly with regard to the Global Reporting Initiative (GRI), which will be briefly discussed as an outstanding example of this broader development.

The GRI was launched in 1997 as a joint initiative of the U.S. nongovernmental organization Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environment Program. Its goal was to enhance the quality, rigor, and utility of sustainability reporting. The initiative has enjoyed the active support and engagement of representatives from business, nonprofit advocacy groups, accounting bodies, investor organizations, trade unions, and many more. Together, these different constituencies have worked to build a consensus around a set of reporting guidelines with the aim of achieving worldwide acceptance (SRG, 2002, p. i).

The guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. In its first phase, GRI has focused on corporations, with the expectation that governmental and nongovernmental organizations will follow in due course. According to GRI, a number of key trends has fueled GRI's swift progress: expanding globalization; the search for new forms of global governance; reform of corporate governance; global role of emerging economies; rising visibility of and expectations for organizations; measurement of progress toward sustainable development; governments' and financial markets' interest in sustainability reporting; and the emergence of next-generation accounting. Already over 2,000 companies worldwide are using the guidelines. This kind of reporting is seen as having numerous benefits as a proactive critical management tool; as a key ingredient for the engagement of internal and external stakeholders of the company; as a warning of trouble spots—and unanticipated opportunities—in supply chains; in communities, among regulators, etc.; and as a means to assess the societal and ecological contributions of the organization, to name a few. GRI recognizes

that many challenges lie ahead and much work remains; however, it maintains that the confluence of need and opportunity will further advance the development of generally accepted sustainability principles (SRG, 2002, pp. 1–5).

Compared with the GRI document of June 2000, the Sustainability Reporting Guidelines of 2002 have been improved considerably. Among the substantive changes, two should be specifically mentioned in this context. The content and organization of the reporting principles have been developed into a comprehensive and consistent set of principles that provides a firm foundation and clear profile of sustainability reporting (see Figure 8.1). And the indicators regarding economic, environmental, and social performance, along with integrated indicators, have become more concise and more systematically organized, which substantially increases the grasp and utility of the reporting.

Critical Remarks

There is no doubt that the promotion of international harmonization in the reporting of relevant and credible corporate environmental, social, and economic performance information to enhance responsible decision making—as stated in the mission of GRI—is an urgent need and a crucial means to support global progress towards sustainable development. GRI and its Sustainability Reporting Guidelines, therefore, deserve close attention, critical examination, and constructive support by businesses, governments, NGOs, and academia.

GRI goes beyond traditional reporting approaches in at least three respects: It not only focuses on financial information but also includes economic,² social, and environmental information; it promotes a multi-stakeholder approach as opposed to the exclusive focus on shareholders; and it complements the common stakeholder approach by addressing the reporting content directly and specifying it systematically.

Despite the novelty and considerable progress advanced by GRI, there are several serious questions that need further scrutiny.

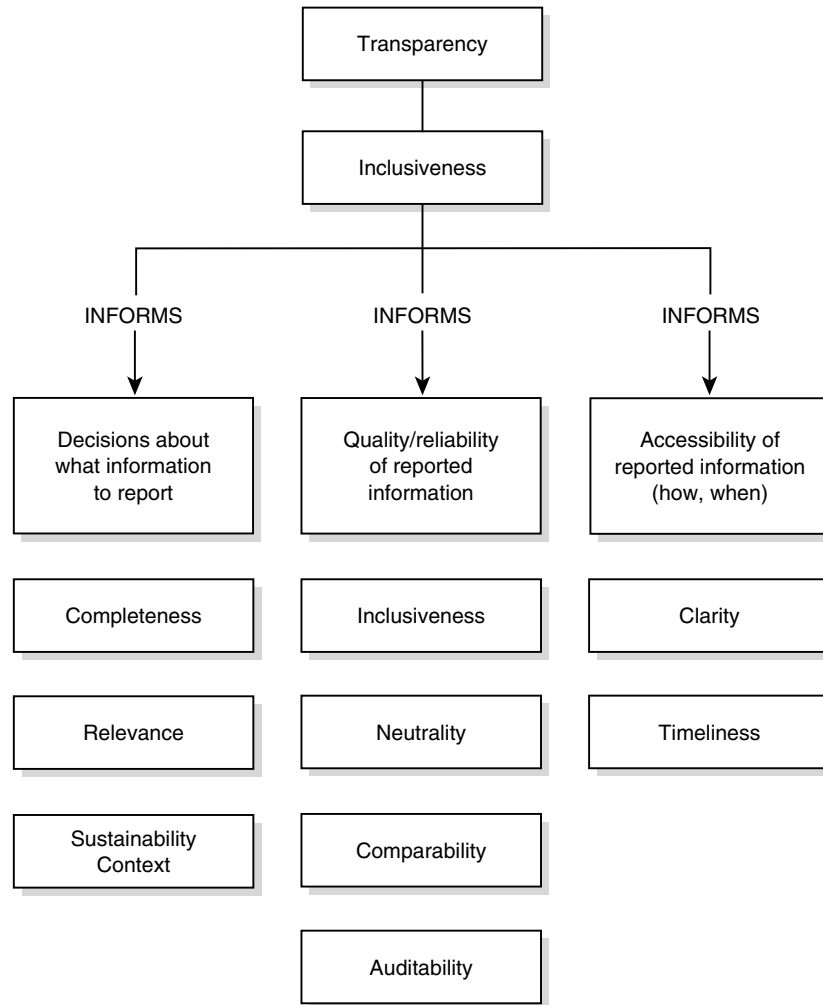


Figure 8.1 GRI Reporting Principles

First, the concept of *performance* seems to be understood mostly as “impact” rather than as “activity” of the organization (with the exception of some social indicators regarding policies, procedures, management systems, etc.). Thus economic performance is equated with the direct economic impact on customers, suppliers, etc., in terms of monetary flow. *Environmental performance* means the impact of the organization’s

activities on the environment—for instance, on energy and biodiversity. *Social performance* is defined as the impact on society—for instance, on indigenous rights and political contributions. However, by concentrating on the impact of the organization, one loses sight of its activities. While the impact of an organization concerns its effects (or consequences or outcome), which can lie in the economic, social, or another realm, the

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activities chiefly regard the processes (or the causes of the impact) which might be of primarily economic, social, or another nature. As the most striking example, profit generation, which was an aspect of economic performance in the draft of 2000, is conspicuously absent in the guidelines of 2002. Moreover, “net employment creation,” “labor practices and decent work,” and “strategy and management” are not considered activities but are seen only in terms of their social (not social *and* economic) impact.

Second, the *distinctions* among economic, environmental, and social performance (i.e., impact) are *sometimes blurred*, as the previous examples show. For instance, net employment creation has not only a social but also an economic impact. One can also question whether “competition and pricing” and “product responsibility” primarily concern social, rather than economic, performance. In addition, the same outcome can have simultaneously different impacts. For instance, “training and education” and “health and safety” may have not only social but also economic consequences (say, as investment in human resources). If these are valued only in social terms, their economic impact is ignored and consequently not accounted for (see Enderle & Tavis, 1998). With regard to social performance, GRI may consider two more aspects: (a) compliance with the tax law, which, perhaps, can be integrated in the category of economic performance, similar to the way compliance indicators are integrated in the environmental and social categories; and (b) respect for social customs and cultural heritage in different regions and countries, which is an increasingly important issue in the multicultural business environment.

Third, a further problem lies in the *widely heterogeneous informational basis of measurement*. Within each category there are several aspects with many indicators. Economic indicators are in a given currency; environmental indicators in tons, kilograms, volumes, joules, etc.; social indicators in numbers of employees, standard injuries, lost days, average hours of training per year, policies excluding child labor, etc. On what basis can the overall performance of a company be

measured? It might be possible to compare the overall performance within the same company at two points in time, provided that the value changes of the indicators point in the same direction. But if the changes point in different directions (e.g., an increase in tons and a decrease in joules), the changes and the indicators (e.g., of use of materials and energy) have to be made comparable in order to aggregate the values. This is particularly difficult with regard to environmental and social indicators as well as the overall performance measurement.

Fourth, related to the informational question is the *evaluative* question. What normative standards should be used to determine the weights and scales of different indicators? GRI seems to offer a purely descriptive approach that only reports the organization’s economic, environmental, and social performance. It is then up to the organization and the users of the report to evaluate the performance from the ethical perspective. Obviously, the selection of categories, aspects, and indicators already involves some moral judgment (since they are considered to be important for sustainable development). But, given this basis, no further ethical evaluation, for instance in terms of minimal ethical requirements, is proposed. Without doubt, this reservation of judgment has good reasons. It seems, however, questionable that such a value-free position can and should be maintained in the long run because the reporting unavoidably will be interpreted from an ethical perspective. If the ethical perspective of the organization sharply contrasts with the ethical perspective of, say, critical groups in society, the reporting might miss its objective and be counterproductive. As a possible solution to this problem, it might be worthwhile to consider Amartya Sen’s capability perspective that is pluralistic in dealing with the aggregation over heterogeneous components and advocates “partial ordering” over the alternative states of affairs (Sen, 1999, chap. 3). What Sen has developed for the evaluation of institutions and public policies in the global context seems to be applicable to corporate reporting as well.

Fifth, as GRI is about the organization's economic, environmental, and social impact, one might clarify the meaning of *impact* in this context. The term does not mean the random outcome of uncontrollable processes. It rather designates the effects or consequences of corporate conduct, which affect not only the economic but also the environmental and social spheres and for which, supposedly, the company is to be held accountable. Beyond this, it remains open whether the consequences are the result of persistently pursued policies, intended or unintended side effects, or a mix of both. Moreover, it does not indicate how economic, environmental, and social performance might be interrelated, for instance, in a hierarchical manner in which environmental and social performance are taken as means to achieve the end of economic performance, or in a different manner. These are important questions about the conception of the company to be discussed in the final section.

A Brief Comparison Between Financial Reporting and Sustainability Reporting

As mentioned at the beginning of this chapter, reporting of corporate conduct is crucial for the companies that send out the reports and for those who receive and utilize them. This holds true for financial and sustainability reporting alike. However, they differ in many respects. Financial reporting has a long history while sustainability reporting has been developed in the last few years. The first kind concentrates exclusively on financial performance, is subject to a compulsory set of rules and regulations, and varies substantially from country to country. The second kind comprehends economic, environmental, and social performance, works on a voluntary basis without legal enforcement, and resolutely aims at international harmonization of standards.

Nevertheless, both kinds of reporting may learn from each other. They serve parallel and essential functions that enrich each other, and they may coordinate their processes, as GRI

encourages them to do. As early as 1993, Ciba Geigy began to publish separate reports (financial reviews, corporate environmental reports, reports on social responsibility, and summary reports). Ten years later, GRI listed several hundred companies, which, in varying degrees, use the sustainability reporting system (SRG, 2002). From the recent turmoil in financial reporting, sustainability reporting can draw several lessons. Reporting needs ethics and cannot properly function without a high level of trust based on truthfulness and transparency. It must be supported by appropriate rules, corporate governance and culture, and the moral commitment of the individuals involved in the reporting system. While GRI appears to be aware of the importance of credibility, this crucial issue probably needs even more emphasis because voluntary reporting (as with laws) is no guarantee for truthfulness. As financial reporting builds on three pillars (the providers, the certifiers, and the users of the reports, depending on their respective responsibilities), sustainability reporting with its identifiable contents should equally rely on such a system of checks and balances. Consequently, the provision of independent assurance (the equivalent of financial auditing) should be enhanced and the voices of the users (similar to the investor community) strengthened. (Numerous attempts to enhance the voices of consumers with social and environmental concerns have been made in recent years; see, for instance, CEP, 2000; Cortina, 2002.) As the history of financial reporting indicates, there is a long way to go to set up a necessary infrastructure that can make sustainability reporting really sustainable.

What can financial reporting learn from sustainability reporting? The broader perspective of GRI and its multi-stakeholder approach can raise the awareness of the risks and opportunities that are relevant to financial reporting as well. The eleven reporting principles of GRI (see Figure 8.1) may help to better define the task and profile of financial reporting. Over time, financial performance measurement increasingly can benefit from the

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measurement of economic, environmental, and social performance. And the resolutely global approach of GRI may bring financial reporting closer to common international standards and procedures in order to pursue the overarching goal of sustainable development.

TOWARDS A NEW CONCEPT OF THE COMPANY

The role of companies in the ethics of financial reporting and the Global Reporting Initiative leads one to examine the concept of the company that underlies and shapes corporate reporting.

With the broader focus on companies' economic, environmental, and social performance, it seems that a kind of "conceptual crossroads" has been reached where two distinct concepts of the company are posed: the strictly hierarchical concept and the balanced concept of the firm (Enderle, 2002; Enderle & Tavis, 1998).

The *strictly hierarchical concept* states that the company has one purpose, namely to maximize its economic objectives under the constraints of law and basic moral norms. Social and environmental activities and consequences are considered mere means to achieve economic goals. It goes without saying that this concept goes beyond the models of profit maximization and the maximization of shareholder value by providing corporate objectives with rich economic content: the creation of wealth and employment, the provision of marketable products and services to consumers at a reasonable price commensurate with quality, the making of profit, etc. Social and environmental performances have no value in themselves but are instrumentalized in view of the economic ends. In other words, they are pursued because and only because a "business case" can be made for them. This implies that they are used as long as they contribute to achieving the economic goals of the company, and they are dropped as soon as they fail to do so.

In contrast, the *balanced concept of the firm*³ conceives of the company as a multipurpose

organization including not only economic but also some social and environmental goals that are *interrelated in a circular way*. Being a multipurpose organization does not contradict the far-reaching disentanglement of social functions in modern society in which business, government, and the civil sector have large degrees of relative autonomy. Rather, it reflects the fact that business organizations are, willy-nilly, involved in other-than-economic spheres as well, in terms of both activities and consequences (or impact). In addition to economic responsibilities, these involvements also entail social and environmental responsibilities. According to the balanced concept of the firm, they should be clearly stated, along with economic responsibilities, not only as means but also as ends. In such a way, they provide long-term guidance and can motivate the company, its leaders and its employees, to proactive behavior. It should be noted that the recognition of those performances as ends does not exclude their use as means. (See Sen's discussion of human rights, which can and should be considered as ends and means as well; Sen, 1999, chaps. 2, 10).

The term *responsibility* points to the evaluative or normative-ethical question of corporate behavior. It is suggested to use De George's distinction of minimal ethical requirements, positive obligations beyond the minimum, and aspirations for ethical ideals (De George, 1993, chap. 10) and apply it to the economic, social, and environmental realms. For instance, a minimal ethical requirement in the economic realm would be to respect the life and rights of your competitors. A positive obligation beyond the minimum in the social realm would consist in helping the community in the company's neighborhood affected by a natural disaster. It is noteworthy that a company can be "ethical," or balance its economic, social, and environmental responsibilities in many different ways, provided that it respects the minimal ethical requirements in all three realms. It is confusing to talk about an "ethical" or "unethical" corporation without distinguishing these three levels of ethical demand.

In order to further specify corporate responsibilities, it is proposed that one apply Amartya

Sen's "capability approach" and his ethical framework of a "goal-rights-system" to the balanced concept of the firm (see Table 8.2; Sen, 1999). "Capabilities" or "real freedoms that people enjoy" would be the ethical standards, applicable primarily to the minimal requirements while having a guiding function for social obligations and ethical ideals. To illustrate, a minimal requirement in the social realm might involve the opportunity to receive basic education. This might require corporate policy to support local schools and to ban child labor, and the economic

facility of having access to finance may inspire a local group to establish a micro-credit bank (for further elaboration, see Enderle, 2004a).

A further question is how to balance economic, social, and environmental responsibilities in different business situations. The answer is twofold. Economic, social, and environmental performances of companies are closely interwoven and partially overlap. When they overlap, the same business strategy can achieve two (or more) kinds of outcome (or *impact* in GRI terms). "Hitting two birds with one stone" by fulfilling, say, economic

Table 8.2 Specifying Corporate Responsibilities in Terms of Capabilities of Individuals

<i>Responsibilities of the Company</i>	<i>Real Freedoms That People Enjoy (Amartya Sen)</i>
<i>Economic responsibilities</i>	<p><i>Basic capabilities</i> such as freedoms to satisfy hunger, to achieve sufficient nutrition, to obtain remedies for treatable illness; opportunities to be adequately clothed and sheltered, to enjoy clean water and sanitary facilities.</p> <p><i>Economic facilities:</i> Opportunities to utilize economic resources for the purpose of consumption, production, or exchange; economic entitlements dependent on the resources owned or available for use as well as the conditions of exchange; distribution of entitlements; availability and access to finance.</p>
<i>Social responsibilities</i>	<p><i>Political freedoms</i>, broadly conceived (including civil rights): Opportunity to determine who should govern and on what principles; freedom to scrutinize and criticize authorities; freedom of political expression and an uncensored press; freedom to choose between different political parties; freedom to enjoy local peace and order; etc.</p> <p><i>Social opportunities:</i> Opportunities to receive basic education and health care in order to live a long and healthy life and to better participate in economic and political activities.</p>
<i>Environmental responsibilities</i>	Environmental components involved in economic facilities, political freedoms, and social opportunities.
<i>Regarding all relationships</i>	<p><i>Transparency guarantees</i> deal with the need for openness that people can expect: the freedom to deal with one another under guarantees of disclosure and lucidity (as basic requirements for trust).</p> <p><i>Protective security</i> is needed to provide a social safety net for preventing the affected population from being reduced to abject misery, or even starvation and death (unemployment benefits, statutory income supplements, famine relief, emergency public employment, etc.).</p>

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and environmental responsibilities, a company can achieve positive economic and environmental consequences at the same time without additional costs. This “win-win situation” occurs more often than one might believe, but it requires entrepreneurial imagination. Thus its opportunities should be taken to the fullest extent possible, which is probably the most important challenge of putting business ethics into practice.

More difficult to handle is the second situation in which different types of responsibility *diverge*. One faces a trade-off, for instance, between a considerable improvement of environmental performance and a substantive increase of costs. One has reached the “apex point,” after which the increase in one kind of responsibility is only possible with the decrease in another kind of responsibility (i.e., a “win-lose situation”). Here two steps are recommendable. First, the apex point should be moved to the “right” as far as possible. This can be achieved by measures taken by companies (e.g., new technologies, training), industries (self-regulation), or governments (regulation). Second, when the apex point cannot be moved further, but the social or environmental need continues to exist, the costs for addressing this need should be clearly stated and fairly shared with other social actors.

To conclude, I have argued for the crucial importance of truthful and trustworthy corporate reporting, which is an essential interface between business and society. Recent corporate scandals have showed that the ethics of financial reporting should not be taken for granted. Rather, it needs keen attention on the side of the providers, certifiers, and users of reporting. Moreover, companies are more than financial entities, featuring broader economic, social, and environmental performances. But if these dimensions don’t get measured, they don’t get managed. Hence corporate reporting should be extended to sustainability reporting. This widened perspective calls for a conception of the firm which has a broader than financial purpose and balances its economic, social, and environmental responsibilities.

NOTES

1. Given the limited scope of this chapter, I refer the reader to several other writings in which I investigate these issues in more detail (Enderle, 2002, 2003, 2004a, 2004b; Enderle & Tavis, 1998).

2. The Sustainability Guidelines characterize the conceptual difference between the traditional financial performance and the economic performance as follows: “Broadly speaking, economic performance encompasses all aspects of the organisation’s economic interactions, including the traditional measures used in financial accounting, as well as intangible assets that do not systematically appear in financial statements. However, economic indicators as articulated in the Guidelines have a scope and purpose that extends beyond that of traditional financial indicators” (SRG, 2002, p. 45).

3. The view of a “balanced concept of the firm” differs from the various stakeholder concepts of the firm, which are increasingly discussed in management theory and business ethics. While the former approach primarily focuses on the contents of ethically responsible corporate conduct, the latter concentrates on the groups of people (“stakeholders”) who are affected by corporate conduct, to whom the firm is supposed to be responsible or accountable, and with whom the contents of responsibilities may be negotiated. Yet by listening to, and negotiating with, the stakeholders, the question about the specific contents of corporate responsibilities is not answered yet. In contrast, the balanced concept view emphasizes the question of what the company ought to do in economic, social, and environmental terms. By addressing directly these different responsibilities, the potential conflicts and overlaps in terms of contents can be better captured than with the stakeholder approach; if interpreted in an elitist fashion, however, it may fail to listen to the voices of the stakeholders. Therefore, it seems fair to say that both approaches are complementary, though not contradictory.

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