Performance Discussion and Analysis

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As governments struggle to keep publicly traded organizations accountable beyond their national boundaries, a promising proposal for transparency is the disclosure of a performance discussion and analysis. The most advanced versions of reporting reveal aspects of a company that are important to modern society, including employee welfare, environmental stewardship, corporate governance, sustainability, product responsibility as well as financial performance. If companies measure the same thing in a consistent manner, then the usefulness of these reports will be enhanced. To increase the public's trust, the report should be affirmed by an independent third party with penalties for deceptive practices.

INTRODUCTION

The roots of overall performance concern can be traced surprisingly far back in history. In 1272 King Edward I of England banned the burning of sea-coal (coal used as ship ballast off-loaded in London when the ships took on new cargo) because the smoke became a problem (Davis, 2002). On the other side of the globe, Japan can trace the history of its forest management system to sustain its trees to 1666 (Diamond, 2005). United States (US) concerns tend to be local, such as when Benjamin Franklin sought the Pennsylvania Assembly's support to prevent waste dumping and remove the tanneries from Philadelphia's commercial district (Okafor, 2011). Heightened public concern in the US about performance issues began during the 1960s that justifies a more unified national approach. In 1970, Congress brought together many of the federal government's research, monitoring, standard-setting, and enforcement activities into the Environmental Protection Agency (EPA) (Williams, 1993). Many other nations followed suit by creating agencies dedicated to organizational transparency.

Performance Initiatives

Beginning with the 1972 United Nations Conference on the Human Environment (aka the Stockholm Conference), pollution became an international issue (Baylis & Smith, 2005). The United Nations found the necessity for a long-term body to promote environmental protection, so the General Assembly commissioned the 1984 World Commission on Environment and Development (WCED). To give it legitimacy, the Norwegian Prime Minister Brundtland accepted chair of the committee comprised of 21 representatives from both developed and developing nations. Four years later, the commission became the Center for Our Common Future.

A legacy of the World Commission is the modern definition of organizational sustainability as an action that meets the needs of the present without compromising the ability of future generations to meet their own needs (WCED, 1987). The WCED report also recognized that long-term environmental preservation would not be possible without the development that reduces poverty, gender inequality, and wealth redistribution. Without tying them together, the report laid the foundation that the three pillars of sustainable development are economic growth, social equality, and environmental protection. Dyllick and Hockerts (2002) trace the evolution and conceptual development of sustainable development over three decades and identify how it can be applied to business. Elkington (1998) argues that in order for organizations to achieve sustainable development, they must address the dimensions of economic (profit), social (people) and environment (planet). Other research concerning the conceptual development of sustainability find a relationship between productivity and the three dimensions of performance (Jamali, 2006; Markley & Davis, 2007; Srivastara, 2007; Carter & Rogers, 2008; Bergenwall et al., 2012).

Independent Initiatives

In the aftermath of the 1989 Exxon Valdez oil spill, an independent group of socially responsible investors and other groups founded the Coalition for Environmentally Responsible Economies (CERES) to spearhead corporate organizational accountability. The CERES produces and maintains a 10-point code of conduct to help guide corporate behavior toward sustainable policies and practices. As of 2011, 80 companies are members of the CERES network (www.ceres.org). After pioneering the corporate reporting guideline, CERES assisted in the formation of The Global Reporting Initiative (GRI). The GRI is an international non-profit, multi-stakeholder, network-based organization that develops and maintains via due process a comprehensive sustainability reporting framework widely used around the world by organizations to voluntarily report their economic, environmental, social and governance performance (GRI, 2002).

In 2010, Eccles and Krzus published their book that challenged thinking about corporations reporting activities and transactions that represented sustainability risks and opportunities of the company. Their effort led to the creation of the Sustainable Investments Institute in Boston and later to the Investor Responsibility Research Institute in New York. Also during 2010, an initiative was underway to establish the Sustainability Accounting Standards Board (SASB) a nonprofit organization based in San Francisco. The mission of the SASB is to encourage companies to disclose specific information on issues including employee turnover, ethical marketing, energy usage, supply chain quality management and pricing fairness (Chasan 2013). The SASB guidance is voluntary but the Board claims their standards will result in improved performance of over 13 thousand companies.

Researcher DeSimone (2013) finds that only 1.4 percent of the Standard & Poor companies include financial and sustainability reporting as part of their annual financial report. Yet he concedes that sustainability related disclosures are not unusual for U.S. companies as almost 500 companies made at least one sustainability-related disclosure while nearly three quarters of the companies assigned a dollar amount to the sustainability initiative. Of the companies reporting sustainability initiatives, over 40 percent of the companies linked executive compensation to the initiative.

Legal Initiatives

While various forms of social reporting are gaining credibility, actual reporting requirements are inconsistent and fairly local. For example, in the United States the Dodd-Frank Act, (Dodd-Frank Act, 2010) requires companies to investigate and disclose information about minerals from the Democratic Republic of Congo or an adjoining country, and to disclose payments to foreign governments involving minerals, oil, or gas. These provisions prevent American money from funding African conflicts or propping up local despots. While these provisions are fairly narrow, the act requires verification by third party auditors (Zandvliet, 2011).

International Initiatives

In Europe, societal and environmental performance disclosure is encouraged, but not required at the Union level. According to Zandvliet (2011) member-states have various reporting requirements, with varying levels of guidance regarding what should be disclosed and the enforcement. Most countries require reporting only on a voluntary basis (Niskala & Pretes, 1995). The G3.1 Guidelines (GRI, 2011) version of sustainability reporting framework is used by state-owned companies in Sweden. Companies in Denmark, Belgium and Germany may also elect to employ the GRI reporting guideline although there are laws that require more transparency or prescribed disclosure content. Holland and France have the strictest social and environmental performance reporting requirements. Holland requires social reporting to be included in the company's annual reports but the company may select what topic to disclose. France also requires annual report disclosures in companies' financial reports but the disclosure components are prescribed (Zandvliet, 2011).

Many of these reporting guidelines are fairly onerous and it is not uncommon for a firm to be compelled to comply with multiple national guidelines (Ortas & Moneva, 2011). The question becomes whether there is any evidence that companies issuing organizational performance information also have superior financial performance? For that matter, is there any evidence that organizational and sustainability reporting actually accomplishes its purpose?

LITERATURE REVIEW

Prior research has examined issues that concern social and environmental reporting. The following briefly reviews several relevant studies. For example, Parker (2005) reports a survey of social and environmental accounting and performance research published in six academic journals from 1988 through 2003. He finds that a majority of the articles addressed environmental topics. However a quarter of the articles discussed social responsibility concerns and less than 10% addressed both environmental topics and social responsibility concerns (852).

Hess (2007) reviews an environmental performance reporting paradigm shift that is underway. He contends that the older regulatory model of corporate governance has run its course. In its place Hess argues there is a new performance model. This performance model replaces laws and regulations with social and economic pressure. Hess contends consumers want to support companies that treat their employees well, contribute to their communities, and continually reduce their impact on the environment. He maintains that organizational performance reporting has an important place in providing the transparency needed for these feedback mechanisms to be effective (Hess, 2007).

Nehme and Wee (2008) provide some organizational performance reporting guidance. They develop three models that predict and explain corporate behavior. Their *institutional theory* provides insights under both the old regulatory paradigm and the new performance reporting paradigm. It predicts that corporations will organize themselves in ways that are acceptable to their surrounding society or to respond to legal requirements. Their *stakeholder theory* is central to the new performance reporting paradigm. It argues that the shareholders are only one of several groups that have an interest in the actions of the company and that companies also have an obligation to society at large. They identify other stakeholders to include customers, employees, trade groups, communities, government agencies, suppliers, and creditors. The company must always weigh the needs and desires of the different stakeholders when making decisions. The third theory that Nehme and Wee (2008) propose is the *legitimacy theory*. This theory proposes a social compact between a company and society. The more carefully a company adheres to the social norms (or appears to adhere), the more beloved the company and the higher its prestige.

Deegan (2002) examines the legitimacy theory more closely as a possible motivation for organizational performance reporting. He finds that while the theory is still somewhat underdeveloped, it does provide a strong motivation for companies to explain and justify their behavior. Nike Inc. for example, was criticized severely for employing sweatshops to manufacture its sneakers. However, the company used subtle pressure to make organizational changes. It implemented a social audit which is a formal third-party review of the company`s endeavors in social responsibility. In an environment where social and environmental performance reporting does not have an externally imposed requirement and is purely voluntary, Nike's social audit earned applause and served as a platform for it to legitimize its behavior (Deegan, 2002).

However, a common sense examination of the legitimacy theory does disclose issues. Since the company appears to be conforming to social norms, many view performance reports with a degree of skepticism. Indeed, Belal and Roberts (2010) reveal that even in the less sophisticated social context of Bangladesh, these reports are viewed as largely cosmetic.

Public Relations

Pennington and More (2010) go further and assert that performance documents are *greenwash*. The companies that issue performance reports selectively reported their actions, making it look like they are more concerned about the environment, financial activity, and social sustainability than they are. More often than not, they conveniently omit unflattering information. Another study confirms this to some degree. Grosbois' 2012 study of the hospitality industry's organizational performance found that the performance reports were mostly rhetoric, with few specific initiatives. In fact, few try to provide concrete measurements. Those companies that did provide performance data were not comparable because there are not any consistent methodological guidelines.

The case study of British Petroleum (BP) is also consistent with the lack of consistency. Mobus (2012) examines BP's social report issued prior to the Gulf of Mexico deep well platform Macondo explosion. This event marked the beginning of one of the worst environmental disasters in American history. Yet the social audit issued by Ernest and Young just five days before the explosion, portrays a company striving to be a good corporate citizen. Interestingly, the accompanying documents from Ernest and Young listed areas of increased risk that looked quite prophetic after the crisis that confirms the value of a third-party review and affirmation of performance reports.

Organizations caught in hypocritical acts such as BP are also known as *gotcha* companies. However, there are other companies that do withstand the media scrutiny and act transparently with their environmental performance reporting. Reasons for doing so could be because companies realize the power of their stakeholders. Stakeholders such as consumers and business-to-business customers wonder what is in the purchased products and how was it manufactured. Employees feel more secure knowing their company's actions align with their personal values. Other stakeholders such as banks and insurance companies also take social and environmental variables into consideration, because they know that one *gotcha* moment can dramatically affect a company's reputation and financial survival. Therefore, companies realize it is best to deal with the expectations and transparently report their environmental issues, even though it might not help their financial performance in the short run (Etsy & Winston, 2009).

Financial Performance

While the voluntary performance reports do not necessarily reflect high environmental and sustainability concerns, do they at least track with financial performance? Griffin and Mahon's 1997 study suggests that investments in these areas are more a result of company culture. They find that companies continue to invest in organizational issues even as their financial performance deteriorates. One such reason could be their perception of their stakeholders' concerns. Weiss' 2012 study suggests companies that integrate sustainable practices more deeply into their corporate behavior have higher returns on their investment over time, and tend to be more highly valued by the capital markets. Oeyono et al. (2011) support this finding. They find in their study of 50 Indonesian firms that reporting social responsibility activities is beneficial for corporations in emerging economies. Lawrence and Weber (2008) also support Weiss' findings. They review 52 studies of different firm types and locations to examine the relationship between social and organizational performance reporting and firm financial performance. In the majority of the 52 studies, Lawrence and Weber find that firms with more responsible behavior achieve positive financial results. In contrast, the Association of Chartered Certified Accountants (ACCA) (2004), finds no significant correlation between organizational performance reporting and financial performance.

Disclosure

Environmental disclosure in financial reporting has become a widespread public policy instrument to protect the public and to improve the performance of business (Ashcroft, 2012). Firms rely on voluntary organizational performance disclosures to address demands for transparency and accountability (Slayter, 2009; KPMG, 2008). Many firms report their organizational performance behavior in so-called sustainability reports with content that may be very dramatically different (Kolk, 2008). Notwithstanding a few required disclosures related to contingent environmental liabilities (ASC 450 Contingencies) and toxic waste emission (ASC 410 Environmental Obligations) in the United States (FASB, 2009) and selective disclosures environmental reporting required in a few countries (KPMG, 2008; Llena et al., 2007), disclosure of nonfinancial information remains largely unregulated (Kolk, 2008).

Various entities suggest an increased interest in the voluntary disclosure of organizational performance by US publicly traded firms. These actions include the Securities and Exchange Commission (SEC) issuing guidance pertaining to climate change impact on business risks (SEC, 2010), the US Senate hearings addressing corporate disclosure of environmental information (CERES, 2007) and investment groups pressing for more data for investors and managerial decision-makers. Although a few required disclosures exist such as ASC 450 Contingencies concerning liabilities and ASC 410 Environmental Obligations regarding toxic wastes (FASB 2009), most corporate organizational performance reporting remains unregulated (Kolk, 2008).

Hess (2007) examines transparency initiatives and finds that the most successful programs shared certain characteristics. First were the winners; companies that are doing very well under the criteria being considered. These companies champion regulations requiring greater transparency, because the result highlights their organizations favorably compared to their competitors. The second characteristic is the existence of strong, third-party information intermediaries. These organizations cut through the company rhetoric and process the data to provide comparable results to the general public. The third requirement is the ability for companies to see benefits from disclosure. Even if the first disclosure shows the company in a poor light and if a company can highlight improvements over time, the company will come to support the reporting process.

Ashcroft (2012) finds that the extent of performance disclosures does not significantly differ between the reporting by US and Canadian publicly traded firms. Both US and Canadian firms disclose environment liability information in the financial statement introduction, note disclosure, the management discussion and analysis and other sections of the annual report. The management discussion and analysis disclosure was much greater than the other disclosures. However, the analysis of organizational disclosures in the annual report is beneficial. The disclosures provided in the financial statements and notes are the only disclosures that are audited and are more likely to be meaningful and reliable.

Industries

Agency theory suggests that management, absent the oversight of governance mechanisms, maximizes its utility, often to the detriment of the firm (Jensen & Meckling, 1976). Because nonfinancial performance reporting is principally voluntary, various industries demonstrate selective performance disclosure so as to satisfy external stakeholders' interest. Thus industry organizational performance disclosures are of interest.

Yip and colleagues (2011) compare environmental reporting and earnings quality in different industries: oil and gas, and food. They found that in the oil and gas industry, environmental reporting and earnings quality were complementary; that is, the companies that took the time and effort to report environmental statistics also had high earnings quality. On the other hand, in the food industry they found that environmental reporting and earnings quality were substitutionary; that is companies tend to have high quality environmental reports or high quality earnings, but not both. They conclude that the difference is the environment in which the two industries operate. Oil and gas companies operate in a highly scrutinized and politicized environment where it would be dangerous to make any false statements. Food companies suffer far less oversight and could choose to incorporate their social responsibility activity (SRA) into their public relations process (Yip et al., 2011). This study demonstrates that higher degrees of transparency have greater power to keep a company in line.

Gamble et al. (1995) rate the content of environmental disclosures in the annual reports and 10Ks of U.S. firms in the oil and gas, chemical, petroleum refining, steel works, motor vehicles, and hazardous waste industries for the years 1986 to 1991. They find a significant increase in disclosure quality over time, with 1989 having the highest quality level. The industries of petroleum refining and hazardous waste management had the highest quality disclosures among the sampled industries.

Rupley et al. (2012) investigate a sample of firms drawn from five US industries: chemical, oil and gas, electrical utilities, pharmaceutical and biotech, and food and beverage. They select their set of industries to provide a contrast of high to low polluters based on the Toxic Release Inventory (TRI) database (Kassinis & Vafeas, 2006). Including industries considered high or low polluters, provides the researchers a comparison of firms that might be differentially driven to voluntarily disclose nonfinancial information, potentially resulting in more generalizable results. They find that firms with negative environmental legitimacy display a higher quality of voluntary information disclosure as managerial discretion and decision making regarding disclosure has become a multi-stakeholder perspective.

Tschopp et al. (2011) point out that social reporting has evolved significantly over a short period of time. They select existing institutions that have been developing financial reporting that includes corporate social responsibility (CSR) information, and analyze their influence on accounting standards boards. Their study examines the organizations' role in the finance world and, while differences are found between financial and nonfinancial organizational performance reporting, the study proposes that the organizations attempt to mirror their roles in the new disclosure and reporting discussion. Even in a completely voluntary reporting environment, the institution investigated demonstrate a belief that societal institutions can play a role in promoting overall external reporting and in improving comparability and quality.

ENHANCED REPORTING ARGUMENTS

Pro Arguments

One argument in favor of enhanced organizational performance reporting is that it can displace government regulation. This is one of the tenets proposed by Hess (2007) as government regulations often lead to adversarial relationships between corporations and governing bodies. Companies spend considerable resources looking for loopholes and defending their actions instead of working collaboratively with others to find solutions to common problems.

Another advantage of nongovernmental guidance is the flexibility it provides. In order to change standards, regulators often need explicit authorization encoded in law. This process of tightening standards, even if supported by the best science, is inevitably politicized. In contrast, the process of reporting, comparing, and ranking provides a self-feedback loop that escalates and improves the standard over time.

While regulatory authority and government engagement in the private sector may have more history and societal consensus in some areas of the world, in the US it is a highly contentious topic. An enhanced reporting model works through organizational transparency and democratic stakeholder involvement. The hardline elements of society that most oppose the government's involvement can support these independent initiatives.

Many of the companies included in the various studies regarding organizational performance reporting certify their environmental management systems by the ISO 14001 standard that requires participants to adopt an environmental management system and have it certified by external auditors (Rodinelli & Vastag, 2000). ISO 14001 Environmental Management System Standard was issued in 1996 by the International Organization for Standardization (ISO). The ISO is a nongovernmental, nonprofit membership organization based in Geneva, Switzerland composed of the standards bodies from 161 countries. The members are either government agencies or have some governmental affiliation but the guidelines are voluntary in most jurisdictions (Potoski & Elwakeil, 2011). Advocates of the standards claim substantial operational, managerial and competitive benefits for organizations that adopt the guidelines. Rodinelli and Vastag (2000) find that organizations adopting the ISO guidelines report improvements in employee awareness, operational efficiency, managerial awareness, and operational effectiveness.

Transparency provides incentives for big companies to undertake initiatives that benefit society even if they have questionable financial returns. For example, Toyota has polished its green reputation by developing hybrids, even though the fuel-efficient vehicles only accounted for 2% of total 2011 car sales in the United States (Willis, 2012). Likewise, fast food chain restaurants and other restaurants have made significant public relations gains by offering foods such as salads, low-fat dressing, diet drinks, and whole-grain breads or other types of healthier food options. These companies made public relations gains while improving societal welfare. Thus, organizational performance reporting can create value for companies, enhance an organization's reputation, and increase its ability to adapt to a changing marketplace. As more business stakeholders become concerned with organizational conduct, more companies will track information and provide performance reports to address those concerns.

Some researchers argue that environmental and sustainability reporting may even pay for itself. For example, Porter and Kramer (2006) argue that by concentrating on the long-term sustainability of its actions, a firm will develop novel information systems using feedback and management mechanisms to take advantage of opportunities. These actions may prove to be mid- to long-term advantages for environmental performance reporting.

The most direct argument for organizational performance reporting is related to the companies' profitability. For example, Wal-Mart now puts skylights in all of its stores. The added ambient light during the day allows the company to dim or turn off its artificial lighting at selected times, saving electricity and money for the company (Morgan, 2006). Likewise, any energy saved and recycled scrap has the potential to save the company money. Forcing the company to measure its resources more closely also allows it to use them more efficiently.

Contra Arguments

In 1970, Milton Friedman (Nobel Prize winner in Economics) made the most direct argument against burdening companies with additional requirements. He argued that the only performance responsibility of business is to increase its profits. He decries those who say that business [should have] a social conscience and [should take] seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers (Friedman, 1970). Businesses are a mechanism for using their shareholders’ money to make more money. If the shareholders wished to use their money to improve the social good, then they would have invested their money in a different way.

In this vein, other opponents argue that companies can lose profits while pursuing these fleeting and faddish ideas of public good. Companies most benefit society when they act in their own self-interests. Corporations exist for the maximization of profits not because of a commitment to social responsibility. For example, reducing pollution can be costly for a manufacturer. And if the market is genuinely demanding more fuel-efficient vehicles or healthier foods, then those companies that meet these demands will make the most profits.

Weiss (2012) finds the correlation between performance reporting and financial performance is mixed. Though some studies find that firms with more responsible behavior achieved solid financial results, others were mixed. A survey conducted by ACCA (2004), found no significant association between CSR reporting and financial performance.

Opponents of environmental and sustainability performance reporting believe that even the environmental reporting is nothing more than window dressing used to manage their firm's reputation or for competitive purposes. Performance reporting has become a centerpiece of corporate image-crafting (Elgin, 2007). British Petroleum is just one example of a company that issued a favorable social audit which did not hold up under scrutiny (Mobus, 2012).

REPORTING GUIDANCE RECOMMENDATION

Companies currently have the option to issue a stand-alone organizational performance and sustainability report, attach the data to their annual report, or issue no data at all. US companies tend to not include information in the annual financial report that provides little or no benefit. Thus, they typically conduct their social audit in secret. In concurrence with the agency theory (Jensen & Meckling, 1976), if the results are favorable, the company releases the information and the findings to the public. If the audit results are unfavorable to the company, management can decide to keep the results internal (Owen et al., 2000). Management prefers this situation because this asymmetry of information strengthens its hand. Without a change in the corporate governance structure, management can easily monopolize nonfinancial performance reporting and audits until they become another skillfully controlled public relations affair.

Whether companies have an increase in their triple bottom line because of environmental reporting will vary from industry to industry (Savitz, 2006). For example in some industries that are already highly regulated, the sustainability and organizational performance reporting would add little to the public's knowledge of their activity. For small companies, the cost to create an organizational performance report would be onerous. Ideally, environmental performance reporting should continue to be voluntary. However, a few changes could significantly improve the quality of the reports and their usefulness.

In the US, it is unlikely that companies will be able to address the weakness in sustainability and organizational performance reporting without some outside guidance requirement. No US regulatory body now has the authority to regulate performance reporting, so the reporting requirement would mandate some kind of authorizing legislation. Typically, new initiatives created through the political process are a weak compromise. However, any US legislation should require the following criteria:

1) An independent agency assigned the authority to set guidance.
2) Sustainability and organizational performance reports are affirmed by an independent certified public auditor.
3) An agency, such as the SEC, designated the power of enforcement for false or misleading information.
4) Required reporting elements identified. Any disclosure beyond the required elements would be voluntary and permitted.

The Financial Accounting Standards Board (FASB) would be an appropriate independent body with the project development and financial reporting oversight expertise to set the methodologies for performance reporting as it presently sets financial reporting guidance for nongovernmental organizations. For example, the FASB could develop a set of performance reporting procedures for verifying various performance reviews of economic, social, and environmental aspects of the organization. Any company employing those procedures would have comparable results; no matter where they are headquartered or in what industries they participate. Since FASB is not directly funded by corporate entities, independence would not be an issue. Reporting compliance and enforcement would be the responsibility of another body.

The second recommendation is there should be third-party verification of the reported information. Just as current Generally Accepted Accounting Principles (GAAP) guidance requires a second set of eyes on financial results, having an independent party verify sustainability and organizational performance gives the public some assurance the report accurately reflects reality.

The third recommendation is the enforcement authority. Just as the SEC has the power to bring civil (but not criminal) suits against companies that mislead investors with their financial statements, some agency must be able to bring suit against companies that mislead stakeholders with their performance reports. So long as there is no penalty for blatant untruths, companies will feel free to view organizational reporting as public relations tools. It would make sense for this enforcement authority to be folded into the SEC since they are already the watchdog mechanisms for company documents. Another possibility is to add this responsibility to the EPA since many of the proposed disclosures involve environmental data.

Compliance processes may also grant the enforcing agency power to propose updates to the reporting requirement as new situations arise.

The fourth recommendation is that should a firm choose to report voluntary disclosures it would be permitted. For example, every company should be required to report the total amount of greenhouse gasses emitted, directly or indirectly, by weight. But should the organization have related information, they would not be prohibited from including the voluntary information in the report. Another possible standard disclosure might be drawn from the France and Holland requirements to display operation activities to ensure that the company and its suppliers do not employ unsafe production practices or forced labor. These disclosures of basic data should ensure the positive performance reporting with the least amount of government intrusion. They should also prevent the performance report from being strictly a self-congratulatory public relations exercise.

A vehicle for these recommendations could be in the form of a performance discussion and analysis (PD&A) as supplemental required information in the audited annual financial report. The supplemental performance information would include reviews of currently known facts, decisions and conditions regarding economic, sustainable, social, and environmental performances. It would provide accountability and transparency to help stakeholders and financial statement users assess whether the organization had improved or deteriorated over time. The reporting organization's management should envision the analysis to be an opportunity to communicate information and insights into the organization's operating and performance activities. Although the specific contents of the environmental performance discussion and analysis reporting contents would be the product of extensive due process, the suggested criteria would lead to the minimal inclusion of at least five sections to discuss the integration of the strategic and operational performance processes with the economic, social and environmental aspects of the organization. The five sections include the following: 1) operating environment, 2) strategic performance, 3) financial performance), 4) operational performance, and 5) sustainability performance. Table 1 displays an extended index of appropriate topics for inclusion in the performance discussion and analysis. The discussion should provide an objective and easily readable analysis of the activities based on currently known facts, decisions, and conditions. The discussion should provide a broad overview of both the short- and long-term analysis of the organization's activities. The presentation should not be viewed as a public relations opportunity but rather based on factual information and combine both positive and negative perspectives. Graphs, multiple-color presentations or other appropriate presentation strategies could provide insight into the analysis.

TABLE 1

PERFORMANCE DISCUSSION AND ANALYSIS - CONTENT ILLUSTRATION

Operating Environment

Climatic - regional, national, global
Markets - regulatory, nonregulatory, voluntary
Resources - property, plant, equipment, human capital, good commodities
Regulatory - laws, corporate governance, best practices
Socio-Political - sectors, restrictions, economic, social environment

Strategy Performance

Strategic goal and objectives
Process and product planning
Management and business policies and practices
Stakeholder requirements
Expansion/diversification

Financial Performance

Overview of financial performance
Comparative two year financial summary
Financial review - five years' revenues, expenses, profits, assets, liabilities, shareholdings, cash flow
Discussion and charts of segments
Discussion and charts of primary products/services

Operational performance

Overview of operating activities
Production initiatives
Inputs/outputs review
Production statistical review (3 to 5 years)

Sustainability Performance

Quality assurance overview
Humans resources - skills development, health and wellbeing initiatives
Entrepreneurial development
Environmental management - conservation, natural resources
Energy conservation/consumption review
Business ethics and management practices - controls, data, risk management
Economic outlook

SUMMARY AND CONCLUSIONS

Globalization has vastly increased the power of publically traded companies. These companies accomplish enormous good, such as developing backward areas, supplying the world's energy needs, and lifting hundreds of millions of people out of poverty. However, many of these companies, headquartered in the US, have extensive operations in developing countries. In many of those operations, the companies tolerate practices that do not meet the societal norms of the US. They have turned a blind eye toward human rights abuses, environmental destruction, and worker safety (Bellish, 2012). Yet these companies have also grown beyond the ability of the modern public opinion and legislation to effectively police them.

One possible answer to this challenge is the addition of a Performance Discussion and Analysis section to the audited annual financial report. Rather than new laws, this discussion and analysis requires more performance activity transparency from the companies. The public should be able to see which companies are improving the welfare of its employees and slowing environmental degradation. These companies will be rewarded with the increased confidence and admiration of its consumer. If performance reviews find that an organization is using sweatshop labor or poaching endangered species, then the firm should suffer publicity backlash and reduced business.

While the performance reporting concept has significant appeal, current organizational reporting is not filling this promise. There are several reasons. Performance reporting is not widespread, the results are not consistent enough to compare from company to company, and companies tend to report vague projects and initiatives without providing quantitative data. While the recommended performance discussion and analysis would become part of standard organizational reporting, voluntary disclosures should not be prohibited. Standard organizational reporting provides minimum report content requirement, adapting a consistent calculation of the data, and providing a presentation report template to make great strides toward addressing the performance reporting shortcomings. The market will assume that companies that do not disclose organizational and sustainability performance are doing very poorly under these guidelines and there will be mounting pressure for them to present their own information. Requiring a third party audit and creating an enforcement mechanism provides some assurance of the disclosure truthfulness.

Critics may warn that companies are built to maximize profits rather than addressing the problems of society. While that is true, organizations still need to conduct their business in a manner acceptable to their consumers and society. Organizations are growing ever more powerful, and with great power come great responsibility. With that power, corporations have the ability to improve the lives of people in ways that politicians can only dream. Sunshine laws have often been used to promote honesty and fair dealing in government; perhaps now is the appropriate time to shine these lights on the most powerful actors in modern society.

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