

Conference on Standardized Corporate Social Responsibility Reporting

J.S. Nelson one-page intro

I am delighted to be included in this conference on corporate social responsibility, and very much look forward to engaging with so many thoughtful people on such an important topic.

Perhaps I may add to the debate by thinking about the order of the questions presented a little differently. The order that had been presented presumes that reporting itself is the key driver of changes in corporate behavior. From the behavioral science research, however, we are, first, trying to trigger a different thought process among corporate decisionmakers about the relative importance of socially responsible actions, and, second, we must have an incentive system in the market that will support and reward the actions.

Reporting is a part of encouraging socially responsible behavior from businesses, but the incentives around reporting are far more important than the actual reporting itself. If it becomes a good business decision that is externally rewarded to engage in socially responsible actions, the reporting of such actions becomes less fraught. For the sake of brevity and to employ the most common reference to socially responsible actions, I use the term ESG.

The current political backlash against ESG undermines incentives not only publicly to report, but may shade data-gathering, including the commitment of resources to reporting, much less a business's underlying commitment to engage in pro-ESG behavior. How much will reporting mean if businesses have market incentive from the ESG backlash—as well as from reducing their own economic outlay—to bury or shade the data? If our goal is to reward pro-social behavior, should we compel a company to report good ESG metrics when the market will punish them for doing so?

With these concerns in mind, and using the same questions as in the conference organizing document, another order of the questions might be:

- a. What constitutes responsible behavior? We may have more clarity on some parts of ESG than others, for example. Combatting climate change seems like one of the most measurable topics with the most international agreement on the steps that need to be taken, and by when.
- b. What role should standardized reporting play in changing corporate behavior? If there is a battle for hearts and minds that is won by ESG, the actual reporting process becomes less of an issue. If companies understand and see benefit in the standards to which they will be held, then reporting becomes more of a formality to confirm the implementation of the standards. That posture conserves enforcement resources and allows regulators to better trust the reporting that they receive.
- c. Who should determine the reporting standards? If the goal is to convince businesses that external expectations and incentives will reward compliance, ESG standards should be set and initially rewarded externally, with businesses designing and implementing their own compliance. Reaching the point of agreement on substantive external standards would both provide political cover and stability for businesses—for which they have been asking—and best harnesses businesses' expertise in implementation, which is the domain of management to align people and resources within the organization to attain goals. If businesses see political and market advantage to aiming above and beyond publicly set goals, they can take those steps as well.
- d. What should the reporting standards be? In certain areas of ESG, such as climate change, we have well-constructed international standards based on scientific consensus that the U.S. can adopt and that would help stabilize operations for businesses. Specific components of those standards, as the EU has adopted, and with which I agree, include quantifiable targets for greenhouse gas emissions reductions, double materiality, external auditing for double materiality, responsibility for supply chain actions (such as Scope 2 emissions), and downstream product use (versions of Scope 3 emissions). My concern is more about how the U.S. can get to the point of adopting these standards, and having businesses understand these standards as in their interests.