

Corporate governance and ethics practice



**ASSIGN
BUSTER**

This report looks at the differences of the sustainability report for year 2011 of the two companies that from the same automotive industry and based in different countries. The first company is a Volkswagen Group, which is a German multinational automotive manufacturing company based in Wolfsburg and founded in 1937. The area served of Volkswagen Group is worldwide and it produced almost 8.5 million vehicles in year 2011. It is one of the world's leading motor automobile manufacturers and has kept the largest market share in Europe for over 20 years (Wikipedia, 2012). The second company is a Mazda Motor Corporation, which is the Japanese automotive manufacturer headquartered in Fuchu Aki Hiroshima and founded in 1920. The area served of Mazda Motor Corporation is worldwide and it produced almost 1.3 million vehicles for global sales in 2007 (Wikipedia, 2012).

Are all the car manufacturers harmful to society and environment? Based on these two firms sustainability reporting, both firms have revealed that they are taking their corporate social responsibility seriously which will audit and measure their activities, and putting money into green research. The two automotive companies, of course, have to comply with toughening fuel economy regulations reduce the impact of global warming and be more compliant because there is an increasing market demand that new generation of consumers are looking at fuel economy and sustainability mobility for making decision for what they buy. For fuel economy regulations, according to (Feng & Amanda, 2004) in their report for Pew Center on Global Climate Change that the European Union (EU) and Japan

have the most stringent standard for requirement for gasoline new passenger car fuel efficiencies as shown in their report.

For the purposes of this assignment, the focus will be on sets out the differences between the reports of the two companies on in terms of the range of issues dealt with in the reports and the depth of the coverage; explains to the differences between the two reports in terms of country factors; assesses the quality of the reporting in terms of Zadek's (1997) criteria (i. e. inclusivity, comparability, completeness, evolution, management policies and systems, disclosure, external verification, and 'continuous improvement'); evaluates the extent to which it would be appropriate for the two companies to use a standardized approach; and makes recommendations about how each of the reports could be improved and why.

DIFFERENCES BETWEEN THE TWO REPORTS IN TERMS OF THE RANGE OF ISSUES DEALT WITH IN THE REPORTS AND THE DEPTH OF THE COVERAGE

The sustainability reports of these two automakers have look into consideration of ESG criteria (Environmental, social and corporate governance) and making major strides in these similar sustainability issues: Management Approach; Corporate Governance and Ethics Practice; Environmental Protection; Product Quality and Safety; Workplace Practice; Human Rights; and Community Practice.

In terms of reporting structure, Volkswagen Group had divided the report to eight chapters, which are strategy, economy, society, CSR projects worldwide, sustainability mobility, environment, key indicators/figures, and <https://assignbuster.com/corporate-governance-and-ethics-practice/>

back-up. On the contrary, Mazda Corporate had identified the six chapters, which are Mazda CSR, management, environmental protection, social contributions, customer satisfaction, and respect for people. The next few paragraphs of this report will look at the coverage of the issues dealt in these chapters and the differences between the two sustainability reports.

Management Approach

At Strategy chapter, Volkswagen Group had disclosed the management approach on CSR strategy in eight pages that covered company new sustainability objectives, development of top class team, sustainability requirements for suppliers, management approach to the sustainability mobility, sustainability management of corporate social responsibility, stakeholder dialogue, global compact, cooperation with Biodiversity Conservation Union (NABU), and the compliance to corporate code of conduct. Whereas Mazda Corporate had disclosed their approach of CSR strategy in the chapter of Mazda CSR in seven pages that covered corporate vision, CSR operations, external evaluation of CSR, awards, rising of employee awareness, stakeholders communication, shareholders and investor relations initiatives and dialogue.

Set-aside the unstandardized of reporting structure, Volkswagen Group had disclosed the basis of information on its stakeholder dialogue program, but had not follow Mazda Corporate to disclose information on how company engages with each key stakeholders that with a full page table of Mazda group key responsibilities to stakeholders and opportunities for dialogue and disclosure.

Corporate Governance and Ethics Practice

At Economy chapter, Volkswagen Group had covered this chapter in seven topics, which are customer satisfaction, sustainability in suppliers' relations, economic stability, raw material, localization, risk management, and compliance. On the contrary, Mazda Corporate covered this in two chapters with total of seven topics, which are corporate governance, internal controls, risk management, compliance, implementing CSR in the value chain, and customer satisfaction.

At Customer Satisfaction topic, Volkswagen Group identified customer satisfaction as a key indicator of how well product developments and model facelifts cater to the needs of stakeholders, and focuses on market studies, complaint handling, and meets customer wishes. Mazda had covered this topic with extensive information on safety approach from three viewpoints of vehicles, people, and roads and infrastructure, with details information in safety technologies to explain how safety can be achieved. Additionally Mazda also covered extensive information in the four pillars that how the company can increase customer satisfaction, which are creating appealing products, improving product quality, improving customer satisfaction in sales, and improving the quality of after-sales service.

At Sustainability in Suppliers' Relations topic, Volkswagen Group had explained the system was built on four pillars which are sustainability requirements for suppliers before submitting quotes, an early warning system for minimizing risk, a transparent procurement process, and supplier monitoring and development process. On the contrary, Mazda had covered clearer information that outline on the Mazda supplier CSR guidelines, major <https://assignbuster.com/corporate-governance-and-ethics-practice/>

channels of communication with supplier, evaluating and recognizing suppliers, measurement and quality improvement program for local suppliers.

At Economic Stability topic, Volkswagen looked at global economic competition and stability; the company recognized the effort that to help in global economic is to achieve sustainable success by taking more responsibility for the environment and for social developments. This topic not covered by Mazda.

At Raw Material topic, Volkswagen Group had revealed the secure and economic supplies of raw materials program, which contains corporate analysis system and regularly engages in dialogue with the Extractive Industries Transparencies Initiative (EITI) to identify risk of corruption. This topic not covered by Mazda.

At Localization topic, Volkswagen Group had covered the implementation of systematic localization that had proven not only benefits in logistical but commercially and generates growth in the respective regions at new Volkswagen plan. This topic is not cover by Mazda.

At Risk Management topic, Volkswagen Group had disclosed information on its risk management programs briefly. As a comparison, Mazda had enclosed more information on risk management policy, action guidelines, and methods of implementing, and the scopes of application.

At Compliance topic, Volkswagen had outlined its compliance effort to keep in line with German Corporate Governance Code, which is core compliance

teams were appointed, annually evaluation of compliance activities, anti-trust legislation matters, and corruption measurement. On the contrary, Mazda had revealed extensive information on corporate governance framework diagram that help in better understanding of company effort in dealing with management issues and how company boost transparency of management with board of corporate auditors. Also Mazda had covered internal controls topic that not by Volkswagen Group, which is disclosed its own self-examination of internal controls framework that having a department to support internal controls.

Workplace Practice, Human Rights and Community Practice

At Society and CSR Projects Worldwide chapter, Volkswagen Group had covered three ethic issues here, which are Workplace Practice, Human Rights and Community Practice. There are three topics covered, which are employment, reward and profit sharing system, AUTOUNI institution, Volkswagen way, employee opinion survey, ideal management, training and skills development, demographic change, advancing women and promoting diversity, social responsibility, and reveals on CSR projects worldwide. On the contrary, Mazda Corporation had covered in eight topics, which are social contribution framework, major activities in Japan and overseas, human development resolving around the principles of the Mazda Way, employee choice of self-realization, promoting work-life balance, advancing women and promoting diversity, reward and profit sharing system, and respect for human rights. As a comparison, Mazda had included a great data in the same page to explain their measurement and how Mazda achieve the goals.

Environmental Protection and Sustainability

In terms of environmental protection and sustainability issue, these two companies had revealed their strategies in similar structure and topics, as shown in the table 1 below. The major differences between the two reports are Mazda had disclosed an impressive Mazda Green Plan 2020 Mid-Term Environmental Plan and clear data within the topic that help in understanding the topic. Both companies had covered good information on how they promote in climate protection, and the coverage are CO2 emissions reduction for automobile, energy supply strategy, environment factory, efficient production, environmental technology, green IT, and green logistics.

Table 1: Comparing the coverage of environmental protection and sustainability issue:

Volkswagen Group

Mazda Corporation

Environmental Management

Mazda Approach to the Environment

This is not cover by Volkswagen.

Green Plan 2020 Mid-Term Environmental

Efficient Powertrains and Fuels

Developing New SKYACTIV Technology

Electro-mobility

<https://assignbuster.com/corporate-governance-and-ethics-practice/>

Making Environmentally Friendly vehicles

Resource Efficient

Recycling and Resource Conservation

Biodiversity

Management and Reduction of substances

Water

Preventing Air and Water Pollution

This is not cover by Volkswagen.

Environmental Communication

Climate Protection

Prevention of Global Warming

This is not cover by Volkswagen.

Environmental Communication

This is not cover by Volkswagen.

Activities and Impact on the environment

DIFFERENCES BETWEEN THE TWO REPORTS IN TERMS OF COUNTRY OR INDUSTRY FACTORS

The effects of the Great East Japan Earthquake in year 2011 has influenced on how Mazda Corporate structured and produced their sustainability reporting. The word “ earthquake” had appeared 25 times in the sustainability report. The top message of chairman of the board has included a paragraph to express company sympathies and condolences message. The paragraph explained how company makes a concerted effort to establish their ethical strategies, and deploy response plan into action to contribute in recovery for the areas affected by earthquake. The details of support activities for the recovery of stricken regions have presented in this formal report. The report also reveals the damage to Mazda group that Hiroshima Plant and Hofu Plant where forced to suspend operations temporary due to inability to obtain certain parts, and Mazda moved to weekly days off from Saturday and Sunday to Thursday and Friday during the summer period in accordance with the policy of the Japan Automobile Manufacturers Association to reduce electricity consumption.

For CSR strategy, Mazda Corporate evaluates its CSR strategy referencing to the Charter of Corporate Behavior issued by the Japan Business Federation (Nippon Keidanren, 2004), and structure the table of contents of the sustainability report on these areas of Environmental Protection, Customer Satisfaction, Respect for People, Social Contributions, and Management (Compliance and Information Disclosure). Whereas Volkswagen Group has referencing their CSR strategy with EU Strategy 2011-14 (European Trade Union Confederation – ETUC, 2011) and structure the table of contents in

these areas of Strategy, Economy, Society, CSR Projects Worldwide, Sustainability Mobility, Environment, Key Indicators, and Back-up.

In terms of code of ethics, Volkswagen Group has paragraph their compliance report in line with the German Corporate Governance Code, aside of Volkswagen corporate ethics codes of conduct. Per required by section 161 of the Aktiengesetz (AktG – German Stock Corporation Act), an annual of conformity with the German Corporate Governance Code has issued by the Board of Management and the supervisory Board of Volkswagen AG on November 18, 2011 (Volkswagen, n. d.). Whereas Mazda Corporation has outlined their five principles of Mazda corporate ethics code of conduct.

THE QUALITY OF THE REPORTING IN TERMS OF ZADEK’S (1997) CRITERIA

This paragraph looks at the quality of the reporting in terms of ZADEK et al.’s (1997) eight principles of quality in social accounting. To what extend the reporting of two companies conforms to and contributes to the best practice. The eight issues are Inclusivity, Comparability, Completeness, Evolution, Management policies and systems, Disclosure, External verification, and Continuous Improvement.

Inclusivity

AAA

Comparability

AAA

Completeness

AAA

Evolution

AAA

Management policies and systems

AAA

External verification

AAA

Continuous Improvement

AAA

THE EXTENT TO WHICH IT WOULD BE APPROPRIATE FOR THE TWO COMPANIES TO USE A STANDARDISED APPROACH

Currently the Global Reporting Initiative (GRI) framework, version 3. 1, is the most widely used standardized sustainability reporting framework in the world (Wikipedia, 2012). The two companies have adopted the GRI framework as a reference to compile their reports. However both companies' reports are not prepared exactly according to GRI guidelines and structure. Should two companies have to use a standardized approach for their sustainability reports that will exactly according to a GRI framework, so that it is helpful for reader to navigate the report, finding specific information, and easier to compare data among similar companies. Or should companies are recommended to be selective or focus primary that are most relevant to

their business. To what extent that it would be appropriate for the two companies to use a standardized approach?

It is not possible for the two companies to present their data in sustainability reporting exactly the same structure and templates because each company is having their own reporting tools, data and context.

However it is possible that the two companies to disclose and to measure of the extent to GRI Guideline Content Indexes.

However as per Crane & Matten (2010, p. 219) recognized that there is an issue with GRI which “ GRI has been criticized is its concern only with establishing procedures for voluntary reporting, rather than having an explicit aim to promote mandatory reporting”. So it is not a regulation that company must follow the same GRI framework rules to prepare company sustainability report. Every company is free to determine its own data according to rules of its own choosing, and there is no performance or penalty at all.

The new GRI fourth generation is now in development. It is an opportunity for the GRI seeking input from worldwide into development of the new standard which cater all the possible gaps in standardized approach. With the new G4 GRI standard it should improve on content in the current guidelines that could possibility encourage companies to use a standardized approach.

THE RECOMMENDATIONS ABOUT HOW EACH OF THE REPORTS COULD BE IMPROVED AND WHY

GRI Content Index

Mazda Corporation could improve their sustainability report by including a comparative table with GRI content indexes that disclose all items in the report at each rows of GRI content index. On the contrary, Volkswagen Group had included the GRI content index but the reference column that contains page number can be confused to some readers and might be pointing to the wrong topic. The comparative table with GRI content index could provides an objective to measure whether all the elements in GRI guidelines have been applied in the report. It is definitely helpful for reader to find specific information and to compare data among similar industry. The sample of comparative table with GRI content index has shown below.

Table 2: The Sample of Comparative Table with GRI content index (G3. 1):

Item

GRI Content

Volkswagen Group

Mazda Corporation

Strategy and Analysis

1. 1

Statement from the most senior decision maker

-Responsibilities increase with commercial success (Page 6-7)

-Top Message (Page 5-6)

1. 2

Key Impacts, risks

-Responsibilities increase with commercial success (Page 6-7)

-Responsibilities (Page 10-19)

-Compliance (Page 28-29)

-Top Message (Page 5-6)

-Management (Page 21-22)

Organization Profile

2. 1

Name of the organization

Page 1, 3

Page 1-2

GRI Content Index

Mazda Corporation.

CONCLUSION

Reporting on sustainability performance is an important way for organizations to manage their impact on sustainable development. The challenges of sustainable development are many, and it is widely accepted that organizations have not only a responsibility but also a great ability to exert positive change on the state of the world's economy, and environmental and social conditions.

Reporting leads to improved sustainable development outcomes because it allows organizations to measure, track, and improve their performance on specific issues. Organizations are much more likely to effectively manage an issue that they can measure. By taking a proactive role to collect, analyze, and report those steps taken by the organization to reduce potential business risk, companies can remain in control of the message they want delivered to its shareholders. Public pressure has proven to be a successful method for promoting Transparency (behavior) and disclosure of greenhouse gas emissions and social responsibilities.

As well as helping organizations manage their impacts, sustainability reporting promotes transparency and accountability. This is because an organization discloses information in the public domain. In doing so, stakeholders (people affected by or interested in an organization's operations) can track an organization's performance on broad themes – such as environmental performance – or a particular issue – such as labor conditions in factories. Performance can be monitored year on year or can be compared to other similar organizations.

(2704 words)

(References/bibliography on the next page)