Candid integrated reporting based on detailed data will help communicate change

Robert E. McGarrah, Jr. is a lawyer at the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)’s Office of Investment in the USA, where he a spokesperson on workers’ compensation. Prior to joining the AFL-CIO, he worked at the American Federation of State, County and Municipal Employees, directing their first labor union public policy department. McGarrah wrote the original proposal for President Clinton’s Commission on Patients’ Rights, and earlier litigated a First Amendment Challenge to Virginia’s Medical Practice Act.

McGarrah is concerned with the impact of climate change – not just on companies, but importantly on working people and their families. He believes that companies need to look outside their sphere of influence, and take a longer term view when it comes to value. Once they have decided what changes are required to tackle issues like climate change, McGarrah says companies need to be more open and candid in their reporting about what needs to be done – particularly in sharing information with their workers.

Society: changing minds about the changing climate

For McGarrah, the major issue is obvious, and it affects us all. “I think that the single most pressing issue for companies, and, frankly, for the planet, is climate change. There’s no question about it; climate change has hit us with great force. In the United States, hurricane Sandy had a huge impact on the entire East Coast – it literally paralyzed our economy there for quite some time.”

Climate change alone provides enough of a challenge. But put it hand in hand with the challenges it brings, and society has an even bigger hurdle to jump. “Climate change is one big factor, and connected to that is how workers and consumers are going to be affected by this transition. They’ve already been affected not only by the direct forces of climate change, but also by the resulting changes in the economy, and how it has been distributing income and investment.”
Companies: long-term goals will be at the center of companies’ value

Future CEOs would do well to keep this in mind, and think about the bigger picture when it comes to valuation, says McGarrah. “It's become more and more clear that immediate short term gains – in other words, the immediate stock price – is not the single biggest criterion.

“In fact, I think to their dismay, many CEOs are beginning to realize that there are forces acting far beyond their control – they may not even have the information at their hands to answer the environmental, social and governance questions they want to address. These are the issues that are affecting market price today, and they will affect long-term market price.”

This is exactly the sort of information investors are interested in, says McGarrah, and it will feed into corporate reporting. “This information is going to be factored into market valuations for stocks, and I think it will soon be a factor in reporting too – maybe not in five years, but ten. Right now we have the SP500 the daily market prices, but we’ll inevitably begin to see these alternative evaluations; it’s a trend.”

Get ready: data on the web will show integration of actions and long-term commitments

Approach to valuation and transparency about sustainability are inextricably linked to success, says McGarrah. “A paper has just recently come out, a big meta study on valuation of companies, which shows that the valuation is greater for companies that maintain transparency and emphasize sustainability in their operations, and that the market cap is greater for these companies over the long term. I think this will continue in the next decade.

“Because of the forces of climate change, for example, and because of this major transition that we’re trying to make out of the financial crisis, long-term performance is on everyone’s mind. There is increasing consensus that companies are going to need to meet environmental, social, and governance reporting standards in the future. What those will actually be is up for debate.”

What does McGarrah think reporting will look like in the future? “Ultimately, I think there will probably be one integrated report. But frankly, the demand for the information means it will have to be disaggregated and made available widely on the web, so people can find it directly via a search engine. I think that’s essentially how investors and consumers and workers are going to need the information, and therefore how companies are going to need to respond.”

In terms of the content, McGarrah says companies need to be more upfront about what needs to change, and be more open – particularly with workers. “Companies are not being candid in reporting their actual prospects for change. Reporting is a beginning point for this dialogue to take place on change. Two major things to discuss are climate change and the economy – where are the new jobs, where is the economy going to be, and what changes are going to have to be made to adapt to climate change?”