Research Paper Management

Importance and Perception Towards Sustainability Reporting – A Study Through Literature Overview

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ABSTRACT

In recent years there is a paradigm shift in the nature of corporate reporting as nowadays they are not confined only with the reporting of economic performance but also they will include the natural environment and society in their reporting. Apart from publishing the annual report of their so called financial performance which they publish regularly they will also include their environmental and social performance as an integral part to their main report. When the companies report this way the system of reporting is called Sustainability Reporting. Triple Bottom Line defines sustainability in terms of three separate perspectives economic, environmental and social scope of operations. Triple Bottom Line is one method of reporting on sustainable business activity. Disclosure (Reporting) is an important aspect of doing sustainable business and acts as a business card to the informed stakeholders. So to present a strong business case globally a strong business card is required as the companies are exposed to a critical mass and needs to come out from the economic dimensions to a broader perspective. The stakeholders are demanding the information on environment and social front also. The highlights of the paper will throw an insight into the development of the system of Sustainability reporting and some of their methodological approach and will throw a light on good and effective sustainability reporting.

Keywords: Sustainable development ,Sustainability Reporting, Reporting Framework

Introduction:-

Nowadays corporate reporting has emerged as a strong business card as it provides the reader a quick and comprehensive understanding of the organization. The rapid globalization and information efficiency in the market has led all the organizations towards a challenging task of providing information about their working and practices not only on financial aspects but also on the front of environment and social perspectives.

Today consumers and other stakeholders are more environmentally conscious and are showing increased interest towards environmental issues (Anderson and Skjoett –Larsen, 2009;Defee et el. 2009).Financial performances are no longer an exclusive driver of business. Economic, Environmental and Social factors are also playing a major role in its growth. Principles of social responsibility are being incorporated into sustainability guidelines compiling the three pillars of environment society and economy (Sean Milmo –Chemical Market Reporter , 2005). In recent years societal demand for environmentally sustainable manufacturing have driven companies to adopt environmental management practices that goes beyond compliance with regulation (Schmidheiny, 1992; Smart, 1992). One significant development in this area has been the proliferation of industry generated codes of practice governing Environment, Health & Safety (EH&S) management (Nash and Ehrenfeld ,1996;Uzumeri,1997).Having said all that an impression emerges that the companies should not fail to notice a development that is taking shape in the years to come.

The paper will lead to an understanding of the process of development of sustainability reporting and how it became an important benchmark of practicing corporate social responsibilities. It will draw some methodology and practices followed in the present times with their framework and will try to focus on the constituents of 'good' sustainability reporting.

A journey to sustainability reporting

Environment is a precious heritage given to us by our previous generation. Man has made lot of developments on earth with relentless activities and by this has generated lot of waste constituents which has continuously polluted our environment and also created hazards to the society at large. Mercury poisoning in Mina mate, Japan or Chernobyl in Russia and Bhopal Gas tragedy made us shocked and motionless. A serious thought provoked the ignited minds that degradation to the quality of air, water and other natural resources must be stopped and a thought to counter the same emerged in the fifties of 20th century. A series of international summits and conferences took place. In 1972 a World Conference was held at Stockhome represented by all Heads of different countries of the world to discuss on a global environment movement. The fruit was the birth of UN agency UNEP(United Nations Environment Program) in the eighties followed by creation of WCED (World Commission on Environment and Development) . This was headed by the Norway's Prime minister Mrs. Gro Harlem Bruntland.The commission published a report called " Our Common Future' in 1987 with the proposed concept of "Sustainable Development ". Sustainable development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs (WCED,1987:43) . As outlined by Scaltegger and Burritt and Petersen (2003, 338) in its very conservative term sustainability reporting must include the four corporate sustainability challenges as outlined by them which will include both the qualitative and quantitative information. Sustainable development reports are public reports by companies to provide a clear picture to internal and external stakeholders of the corporate position and the activities on economic, environmental and social dimensions (WBCSD 2002,7). Since the publication of the first separate environmental reports in

1989, the number of companies that has started to publish information on its environmental, social or sustainability policies and/or impacts has increased substantially (Ans Kolk ,2004). Although clear differences between countries and sectors can be noted, reporting continues to rise, and there is a clear tendency towards the inclusion of societal, and sometimes also financial, issues (Ans Kolk,2004).

It was observed that three phases of development took place in sustainability reporting.

From the mid 1990 the companies were enthusiastic to report more information on ethical, social and environmental aspects of company's activities under the banner of the key term Corporate Social Responsibility. In the second phase reporting on environment got popularity among the multinational corporations. In 1998 for example 35% of the 250 biggest Fortune Global 500 companies were already producing environmental reports ; a further 32% published brochures on environmental issues incorporated the subject in their annual reports (Kolk/Walhain/van de Wateringen 2001). It was now the turn for the social aspects to come in picture of reporting as environmental aspect broadened its horizon towards health and safety measures taken by the company. A systematic process of integration followed that way to include the social aspects of the activity taken by the company .The concept of social balance sheet as a part of social accounting emerged during 1970.In Germany this was published as a catalogue of minimum recommendation published by the German Trade union federation.

Initially there was widespread distribution of environment reports as it was a main focus of the public at large. The main reason why significantly more environmental reports were produced than Sustainability reports is that the European Eco-Management and Audit scheme (EMASII), which is based on the 1995 EMS Directives (EC) 761/2001 and is the leading regulation for environment management systems along with the ISO14001 series of standards, required participating companies to issue an environmental statement (Claus – Heinrich Daub;2005). ISO14001 is a quality control certification that entails the stakeholders about the environmental impact of the activities of a company.

But from 1993 onwards till 2002 there was seen a steady progress in the sustainability reporting worldwide. A clear increase in reporting can be observed, from 12% in 1993, to 17% in 1996, 24% in 1999, and 28% in 2002. Also in some other countries for which there are no trend data since they were not included in previous surveys, reporting figures for the largest 100 companies are available for 2002. In Japan in particular, it turns out that reporting is widespread in 2002 (with 72%). Although the percentages are lower, companies in Canada (19%), Italy (12%), Spain (11%), Hungary (8%), Slovenia (5%), Greece (2%) and South Africa (1%) (are starting to) report on environmental and social issues (Ans Kolk,2004).

A further progress was made in this with the set up of Global Reporting Initiative Framework in 1997 by CERES and UNEP to develop the guidelines for reporting on triple bottom line economic environmental and social performance. GRI has been described by some one as an example of a "Global Public Policy Network" or a form of "civil regulation" a concept preferred to the concept of voluntarism which stands accused of encouraging an unhelpful 'either/or' opposition between "voluntary" or "mandatory" approaches (Sabapathy , 2005: 248). With its G3 vision and a successful journey progressed from 2000 to 2006 the whole world entered into a new era of non financial reporting. As per corporate register.com from 1992 to 2005 there was a huge growth in the number of companies reporting on non financial aspect from a mere 50 to 1906 . So far as the mandatory regime is concerned USA , UK and Japan has dominated the scenario with France showing its interest recently . As per international survey conducted by KPMG (KPMG Global Sustainability Report,2008) more than 80% of World's G250 companies now report on corporate sustainability with a clearly defined objectives.

Importance of sustainability reporting....

The world today is a place where transparency has become a prerequisite for acceptance in the market place and for the license to operate. Indeed, reporting is a very effective approach toward making progress for sustainable development (Markus Lehmi , 2005) .As environmental issues become more important to Citizens , they demand enhanced environmental performance from companies by exerting pressure on public policy makers to enact regulation , taxes , permits and penalties that motivates the companies to improve their performance(Andrew Manikas & Michael Godfrey ; 2010). In the countries of Europe and Asia the companies have adopted sustainability reporting as a means of communicating their enhanced strategic and operational performance towards sustainability. If we talk about DOW JONES Sustainability index it has created a new benchmark with a rating process on the economic social and environmental performance.

The major drivers for the sustainability reporting are

a. Gaining competitive advantage in a global competition.
b. Reducing resource use waste and operating costs
c. Opening up of the company to a diverse set of stakeholders
d. Improving customer confidence and developing community support.
e. Inviting investment from a environmentally and socially concerned group of investors.
f. Reputation and image building exercise.
g. Innovation of new process and technology.

When we talk about companies financial reporting we talk about a Generally Accepted Accounting Principle or framework. So similarly a broad based framework is also needed for a generally accepted sustainability reporting. When we talk about thousand companies reporting on sustainability we must talk about a common framework. It will make the work and understanding very simple under a broad based common framework. It will create value for both the reporter and the stakeholders and will bridge the gap on the front of sustainability reporting.

Most of the companies follows the necessary guidelines given by GRI framework and use it as a reference in development of their reporting scheme (GRI, 2002). Basically effort was seen to overcome the weakness of the previous system followed and bring a change on the disclosure possibilities of corporate sustainability reporting. Idea was to include reports in such way to have a genuine sustainability report instead of an ordinary annual report. Other guidelines include those published by the German institutes IOW and the Pacific sustainability index developed by the Roberts Environment Centre at Claremount Mckenna college in California (Morhardt2002: Morhardt/Baird / Freeman 2002)

Trends in Sustainability Reporting

Active leaders in corporate sustainability reporting who have shown the path to many organizations in developing their reporting standards are as follows.

World Business Council for Sustainability Development (WBCSD)

The coalition for Environmentally Responsible Economies (CERES) ,

The Global Report Initiative (GRI) ….through their G3 guidelines.

The reports reviewed so far shows a trend in variety of approaches and most of them are basically a combination of…..

Learning Curve – Insisting on integration of environmental , social and economic factors into company's policy and operations. Most of them are learners or beginners in reporting.

Case Studies – These reports are actually short stories on different company's programs and projects.

CERES/ GRI / TBL – Presenting economic social and environmental information . But more of segmented reporting instead of integrated reporting.

EMS/ISO 14001 – Gives prominence to effective management and production systems and try to develop the indicators and factors for improved performance.

Integrated Reporting – It depicts the progress made on environmental safety and health and sustainability as a report in the Balance Sheet . Newest trend (Procter and Gamble)

Innovative Reporting – A reporting framework which is customized to the need and objectives of the company (Shell)

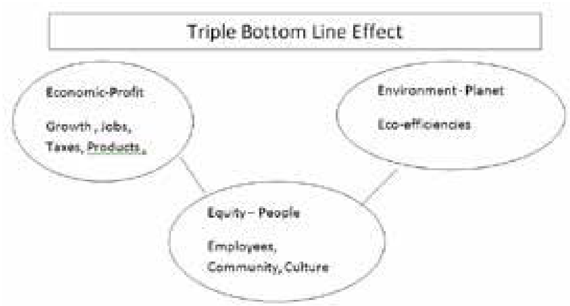
(Source: International Council of Chemical Association Report)

Corporate Sustainability is a 3-Legged Stool …. Triple Bottom Line.

Where Sustainability means – Sustainable Development (SD)

Sustainability Accounting includes - Environmental, Social, Governance (ESG)

Triple Bottom Line (TBL) Effect – 3Es – 3Ps

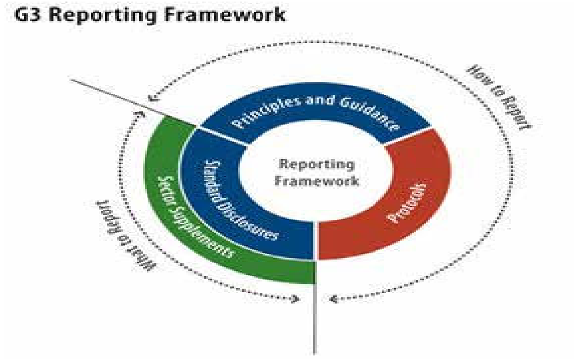


(Source : www.sustainabilityadvantage.com)

Following is the framework proposed by International Federation of Accounts

The Framework addresses four perspectives in bringing together all the critical areas required to successfully manage a sustainable organization. These perspectives are: business strategy, internal management, financial investors, and other stakeholders. Organizations that have successfully embraced sustainable development to add value to the organization and its stakeholders have usually taken action on all four perspectives.

The methodological approach leads to the development of framework on which the whole process of reporting actually works . As a pioneer the GRI framework is built on the Sustainability reporting guideline, sector supplements , indicator protocols and new addition National annexe. Following diagram tells about the reporting framework where G3 sustainability reporting guideline was at core.

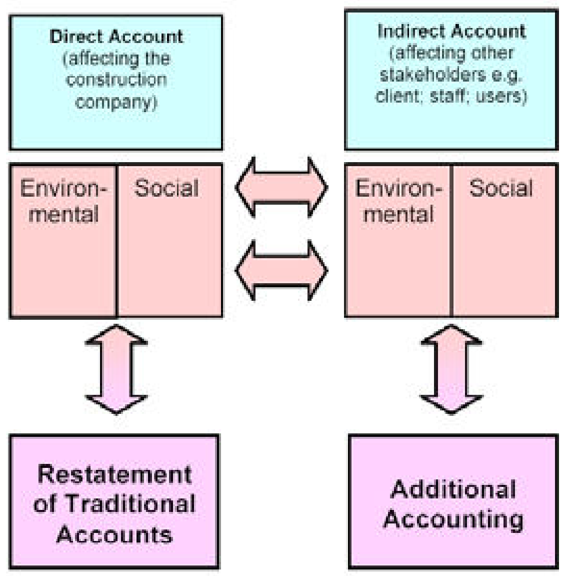


The Sustainability Reporting Framework - of which the Sustainability Reporting Guidelines are the cornerstone - provides guidance for organizations to disclose their sustainability performance. It is applicable to organizations of any size or type, and from any sector or geographic region, and has been used by thousands of organizations worldwide as the basis for their sustainability reporting.

The Reporting Framework contains the core product of the Sustainability Reporting Guidelines("the Guidelines"), as well as Protocols and Sector Supplements.

(Source: GRI Website.)

The traditional model of Sustainability Accounting Reporting (published by Constructing Excellence, UK)



Direct accounts draw out sustainability related information that is otherwise hidden in the traditional financial accounts. These provide a re- statement of traditional financial information to show expenditure on social and environmental activities and capture any associated benefits.

Indirect accounts provide the financial expression of selected externalities, both environmental and social. An externality may be defined as a cost (or benefit) which is borne by stakeholders such as the local community or suppliers, rather than the organization itself .Where possible, financial values are assigned to indirect values. When this is not possible; the indirect impact should be stated in non-financial terms. Indirect impacts accrue to third party stakeholders.

Whatever be the framework or methodology the reporting make sense when it reaches to the audience and it is read and understood by them clearly. GRI is making tremendous effort that exhibits the current thinking and best practices of reporting but it will take more time to make it widely accepted.

In 2001 the Deloitte Global Environment and Sustainability Group a global firm formed a Global working group on sustainability reporting comprised of over 20 reporting experts from various countries around the globe. The idea was to develop a more comprehensive outlook towards sustainability reporting. It provides detailed information and guidance on 30 criteria which was framed in a standardized way for its easy use and application. Each of the 30 criteria will fetch a scoring between 0 to 4 points subject to fulfilment of the specification.

While the field is still evolving , i.e. as sustainability reporting matures and practice develops into a more sophisticated stage, issues of communication quality become of greater importance, in particular , features of interactivity , target group tailoring , and stakeholder dialogue are of increasing relevance in the field (ACCA 2003;Sustainability Ltd,and UNEP 1999)

“Good and Effective” Sustainability Reporting

In 1990 the sustainability reporting was available in Print Media so it was only a reporting fitting into one space. But with the spread of internet it is now an era of online sustainability reporting. So nowadays there is a wider scope of interaction with stakeholders, customization of reports and improving the corporate communication.

As the reporting system developed the quality of communication became significant in the sustainability reporting. The performance of reporting moved towards a better fine tuned information package which includes Timeliness, Reliability, Accuracy , Sensitivity and Assurance . As compared to the reporting standards 10 years’ back the system of reporting nowadays has entered into a sophisticated zone. Further to the development of valuing stakeholder relationship another trend is emerging towards customized approach (Isennmann and Marx Gomez 2004.Brosowskiand Lenz 2004).

IFC in September 2009 started a review and updation on sustainability framework which tried to draw out the performance standard on Social and Environmental Sustainability and policy on Disclosure and Information. IFC’s performance standards followed multifaceted practices giving prime focus on wide stakeholder consultations and became an important benchmark for international institutions working with the international private institutions.

There are currently 8 performance standards which outline the responsibilities of companies receiving or applying for IFC investments.

PS1: Social and Environmental Assessment and Management system .
PS2: Labour and Working conditions.
PS3: Pollution Prevention and Abatement.
PS4: Community Health safety and Security.
PS5: Land Acquisition and Involuntary Resettlement.
PS6: Biodiversity Conservation and Sustainable Natural Resource management.
PS7: Indigenous Peoples
PS8: Cultural Heritage.

Throughout, the standard includes various requirements for the companies to monitor and disclose information externally and as well as internally.(Source : IFC_GRI_Sustainability Report)

The focus is to communicate effectively with the stakeholders which includes the communities and investors about the sustainability of business and supply chains. Transparency in communication will enhance trust and create a strong reputation which ultimately will result in the protection of investors’ interest and will lead to successful implementation of its strategies. The quality of reporting will describe the company’s efficient handling of social and environmental performance.

The GRI guideline sets out the following principles for defining the report content and quality.

Report Content	Report Quality
Materiality	Balance and comparability.
Stakeholders Inclusiveness	Accuracy and timeliness.
Sustainability Context	Reliability
Completeness	Clarity

(Source : GRI Website.)

As discussed in Future Eye’s Scorecard for Sustainability Reporting the effective and good sustainability reporting is based on the following factors.

Understanding	Explains the vision of the company on sustainability issue and also presents its status on Global context
Strategy	How it is linking the sustainability strategy with the overall business strategy.
Innovation	It represents the innovativeness of the product and process and their contribution towards sustainability.
Transparency	A frank disclosure of all good and bad aspects and also the challenges left to be tackled in the coming years under a decent target of timeframe.
Readability	Reporting in a very simplified format so that stakeholder can feel home and a part of the decision making process.
Inclusivity	Responding to stakeholders and engaging them in key process.
Reliability	An assurance process by engaging the stakeholders in the process.
Measurability	A process that shows the impact of company’s actions towards the community.
Comparability	A process to understand the actions in terms of peers or best available practices.

(Source :- Future Eye Sustainability Report)

The major work done by the Deloitte Sustainability Reporting Scorecard which primariliy focus on reporting quality and effectiveness . A concentration was made on those issues and features that make reporting more effective and credible. Evaluation is done on the issues that create an effectiveness for report users from the point of communication and reliability. 30 criteria developed were smoothly distributed into six sections which will explain the interrelationship between report provider and report user.

(Source :Sustainability Reporting Scorecard by Deloitte Touche Tohmatsu)

The scorecard is a self assessment tool and can be used as a source of learning and experience. It focuses on the overall quality report and can act as a benchmark comparison also.

Summary and Conclusion :- Nowadays sustainability reporting is gaining in popularity as a communication instrument between a corporation and stakeholders but despite the development in this field , there exist certain gaps which needs to be addressed (Martha Feni Cayhyandito and Frank Ebinger;2004) .The broad question is whether the communication through the sustainability reporting should only signal a structured detailed report on environmental social and economic performance or some other aspects are also relevant to this reporting. It is not a report but it is a result of company’s year long efforts to achieve sustainable development. As we have moved with the discussions on different theoretical and practical aspects of reporting it is true that sustainable management system and sustainability communication systems are complementary to each other . The communication within the company and the communication between the company and its society exhibits a stronger value towards a new-art management task. It is not surprising that world wide a consensus towards the sustainability has been formed and day by day more new users are taking part in this journey. Although lot of qualitative aspects are reported a well designed activity based reporting will be the need of the hour which will facilitate the reader to understand clearly without having any expertise in the system. The researcher in the years to come will have to bring a pathway towards a better sustainability reporting with a consensus driven easily understandable stakeholder engaged framework.

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