New Perspectives on Corporate Reporting: Social-Economic and Environmental Information

▪

Camelia Iuliana Lungu
Ph.D. Lecturer
Chirața Caraiani
Ph.D. Professor
Cornelia Dascălu
Ph.D. Senior Lecturer
Academy of Economic Studies, Bucharest

Abstract. *In recent times the demand for disclosure of listed companies has dramatically increased and the failures of large companies listed on the most important stock exchanges have placed extra pressure on listed companies and standard setters for the increase in the quality of corporate reporting (Beretta, Bozzolan, 2004, pp. 303-305).*

Our research aims the participation to the professional judgment construction through conducting a survey of existing studies on corporate socio-economic and environmental disclosure. We focus on fundamental research which is related to inductive accounting theory and uses scientific methods for identification of corporate reporting theoretical and practical difficulties in European and international economic entities.

To accomplish our objective, we take into consideration the studies on socio-economic and environmental reporting, already conducted at European and international level, the financial reporting experience and the Romanian experience on this area. We analyze the status of development in corporate reporting and environmental reporting standards and focus on the issues requested and their implications. Also, the paper allows new approaches regarding quality information reporting and its implementation into entities financial statements, ensuring premises for future research.

Key words: socio-economic and environmental reporting; relevance; reliability; information for stakeholders.

▪

1. Supporting the change in corporate reporting

The conflict between relevance and reliability in accounting (Altenburger, Schaffhauser-Linzatti, 2007) can never be solved due to the uncertainty of the future. Future-oriented data can be rarely determined unequivocally, and consequently are not regarded as reliable in principle. Current tendencies especially in the International Accounting Standards and International Financial Reporting Standards emphasize the increasing inclusion of present and future-oriented information, which means that data reliability is reduced continuously.

In the knowledge society we are now living in, the importance of information on corporate aspects is steadily growing; knowledge management is already beginning to supersede management of material, production, or staff. Adequate steering indicators and internal reports for social-economic and environmental aspects introduced by the management of an entity concerned have stimulated external reports to present those to the broad public.

Corporate Social Reporting communicates actions regarding Corporate Social Responsibility to different stakeholders (Gray, Kouhy, Lavers, 1995, pp. 47-77). Consumers, investors and other stakeholders are interested in knowing the impact that company has in the social environment where it develops its activity (Harrison, McKinnon, 1986, pp. 233-252).

The emergence various forms of corporate social responsibility reporting reflect a recognition that the span of corporate accountability is changing to reflect more obviously a range of new stakeholder groups including employees, local communities, consumers, suppliers and customers. A recent report on The World Bank's performance in developing countries argue that the conventional accounting framework is not an appropriate tool to guide organized effort in balancing the competing-interdependent needs of multiple stakeholders (Rahaman, Lawrence, Roper, 2004, pp. 35-56).

Many entities are just beginning to understand how stakeholders want them to measure, manage and account for the full range of their activity impacts on society and environment. The best way to ensure the financial success going forward is to expand the overlap between the business interests and the interests of society and environment. Transparency and accountability, along with a close working relationship with the stakeholders, will grow the business, serve the shareholders' interests and create a better world. This type of report therefore must reflect the growing commitment to work with labour, business partners, government agencies and environmental and community stakeholders.

The business-integrity issues raised by recent corporate scandals have, in turn, heightened the focus on transparent and relevant reporting. With regulators, non-governmental organizations and other constituency groups increasing the pressure to respond, many companies have chosen to set the pace themselves rather than wait for regulation to set the agenda for them.

These shifts pose challenges and opportunities for all organizations. For any company, the ingredients of growth lie in the interplay between business goals and the dynamics of the wider environment and society.

2. Current tendencies in extending reporting area

More and more companies are using sustainability reporting, encompassing the social, environmental and economic impact of the company's operations, not just as an accountability tool but to drive strategy, unlocking new sources of revenue and growth. Companies are not turning to sustainability for altruistic reasons. Profitability and growth are at the heart of their reasons for building sustainability tools into their business strategy.

Current trends suggest that we are entering a new phase of reporting that places more emphasis on social responsibility, and yet there remains a significant group of companies that has still not got to grips with environmental reporting. While some companies produce fully electronic comprehensive reports of all their global social and environmental impacts, others are struggling to implement localised environmental management systems (Line, Hawley, Krut, 2002, pp. 69-78).

Codes of conduct, governance principles and disclosure rules are moving companies to higher standards of non-financial reporting, including expanded coverage in their financial statements. Economic, environmental and social indicators are appearing with increasing frequency, providing insights into the vision and effectiveness of management in anticipating new risks and opportunities in the marketplace.

Reporting of corporate social-economic and environmental information has matured over the past decades, but there still remained a lack of adequate standardization. Equally significant is the growing movement by the major accounting organizations to become involved in the development of standards for corporate social reporting, auditing and verification. Accounting societies around the world have weighed in on the issue, including the CMA (1998), FEE (2000), ACCA-UK (2001), CICA (1994) and IFAC (2005). Their members see this area as a potential new business development area. Accounting consulting companies have been extensively involved in the Global Reporting

Initiative (GRI) effort and wrote substantial comments on the GRI paper *Assurance about the Credibility of Sustainable Reporting*. ACCA and CICA are both active GRI players as well – in fact, they are both on the steering committee.

Sustainable businesses and organizations can be powerful drivers for more sustainable production and consumption. In this context, the strategy challenges large private companies to report their performance in a transparent and meaningful way. The impact of business on the environment and the society is likely to become increasingly important for managers over the coming decades. Entities are facing increasing external pressures to decide how, when and if to address the challenges being posed.

Villiers and Staden (2006, pp. 763-781) conduct a content analysis of more than 140 corporate annual reports over a 9-year period in order to identify the trends in environmental disclosure by South African companies over time. They find a reduction in environmental reporting after an initial period of increases for both Mining companies and Top-100 industrial companies.

Some studies conducted in the context of developed countries (Albuquerque, Bronnenberg, Corbett, 2007, pp. 451-468, O' Dwyer, 2002, pp. 406-437, Solomon, Lewis, 2002, pp. 154-169) argue that incentives should be encouraged to force companies to disclosure its information. However, only few papers have discussed this issue in the developing world context (Ite, 2004, pp. 1-12, Pedwell, 2004).

Furthermore, the increasing emphasis on the reporting of non-financial information and new measurement tools herald the prospect of clearer and more direct connections between a company's worth and its governance, values and social and environmental strategies. Financial managers, in particular, need to be aware of how this affects the fundamentals of financial reporting, including the nature of value itself. Corporate social-economic and environmental reporting is seen to benefit investors more by reducing risk than by increasing return and the research showed that the annual report is the most favoured channel of disclosure, along with presentation to investors.

This was the main theme in much of the early literature on social-economic and environmental accounting (Bebbington, Thompson 1996, Gray et al., 1996) and has been largely responsible for prompting many companies to publish corporate social-economic and environmental reports (KPMG 1997-2005, Lober et al.,1997, pp. 57-73, Gray et al., 1995, pp. 47-77).

Corporate social-economic and environmental reports today represent several decades of incremental change but the incentives are still different in developed countries and in developing countries. While on the surface they appear improved (there are more factual data), the management processes used to craft these reports have changed very little.

According to Solomon, Lewis (2002, pp. 154-169), in the Britain context, companies consider the recognition of their social commitment as main cause for corporate environmental disclosure. However, in opinion of some users groups, the corporate social responsibility is not considered main cause for reporting, they have the opinion that organizations disclose environmental information only to improve their image. Both in developed and developing countries, issuers consider their reason as much more altruistic than the opinion of the different users group.

The criticism about social and environmental reporting argues about an increment of corporate social responsibility and the limited amount of disclosures (Solomon, Lewis, 2002, pp. 154-169). In other cases some organizations that label themselves as corporate social reporters do not behave in a responsible way concerning sustainability matter (Moneva et al., 2006, pp. 121-137). It is also criticized that organizations often have good intentions in sustainability matters, but they cannot transform those intentions into actions and results.

In Australia, the United States of America, Taiwan, Japan and European Union countries such as France, the Netherlands, UK and Denmark, incentives and requirements to enlarge the scope of conventional corporate financial reporting to include non-financial information are rapidly unfolding. Some actions are motivated by national environmental and social policy goals, others by investor pressures to obtain a clearer picture of corporate performance via the securities regulatory process. All indications point to continuing expansion of governmental reporting initiatives to new countries and regions over the next few years.

Given all this studies we consider that corporate social-economic and environmental reporting is relatively new work field. Entity motives for producing these reports vary: communicating to employees; building community good will; communicating critical messages to key audiences; overcoming past negative publicity; continuing past reporting activities; maintaining standard or expected practice for the industry sector; and establishing a product marketing vehicle.

Professor Marc Epstein of Rice University (Epstein, Birchard, 1999) investigated both the state of the art and best practices of how corporations are integrating social and environmental impacts into management decisions and stakeholder reporting. An examination of some of the early work, in social and environmental accounting and reporting, found social balance sheets, social-environmental audits, social scorecards, social and financial balance sheets, social and financial income statements and pollution audits. Epstein mentioned "these reports are far more comprehensive in terms of both measurement and reporting than any of the current company reports". Epstein's analysis is that the improvements in measurement and reporting for social and environmental impacts were never institutionalized in the organizations. Thus, he claims that the more important and lasting issues for corporations today are those of internal reporting to managers to change the day to day decisions so as to be sensitive to social and environmental issues. It is this integration of internal reporting and improvements with external reporting and accountability that should be the real focus of movements toward increased corporate social-economic and environmental reporting.

3. Accounting bodies implication in social and environmental reporting

Some of the first reports were very successful in achieving their focused public relations objectives. But they also raised the anger of many, and it is these audiences that led to a number of Non Government Organizations (NGOs), government, and industry initiatives to improve reporting. Today there are more than thirty reporting frameworks, including the Global Reporting Initiative (GRI) (2002), United Nations Environmental Programme, (UNEP) (1996), PERI (Public Environmental Reporting Initiative) (1994), and FEE (Federation des Experts Comptables Européens) (2000).

Based on literature review we have identified the main international initiatives on corporate social-economic and environmental reporting as: *Sustainability Reporting Guidelines*, published by Global Reporting Initiative (GRI), or *Towards a Generally Accepted Framework for Environmental Reporting*, published by Fédération des Expert Comptables Européens (FEE). On this matter, also, the United Nations Environmental Programme (UNEP) has published a statement identifying fifty core features of environmental reports and there is considerable common ground between the UNEP guidance and other similar pieces of guidance. It is important to recognize, however, that the UNEP approach is primarily intended for application in the case of separate (stand alone) environmental reports.

The European requirements on environmental performance reporting, included in the EU Accounts Modernization Directives, define and describe Environmental Key Performance Indicators (KPIs) that provide businesses with a tool for measurement. They are quantifiable metrics that reflect the environmental performance of a business in the context of achieving its wider goals and objectives (Gary, 2005). KPIs help businesses to implement strategies by linking various levels of an organization (business units, departments and individuals) with clearly defined targets and benchmarks.

Surveys of social and environmental reporting practice tend to show that both the quantity and the overall quality of reporting are increasing. In areas such as scope of reporting, consistency of methodological approaches as recognition and measurement policies and timeliness of reporting, we believe that improvements in quality are required. Similarly we see the need for better focused stakeholder related reporting. Preparers of social and environmental reports in particular would like confirmation that their reports are effective, and users of such reports, especially the increasingly environmentally aware financial community, are demanding more consistency in the ways in which social and environmental issues are measured and reported. Thus, we assert once more that a formal set of recognized reporting principles and a standardized reporting framework, not dissimilar in principle to those adopted in the EC 4th Directive on Company law or to IASB framework, should help overcome any perception that reporting of social and environmental information lack credibility.

Conclusion

In the case of certain industry sectors or companies, discussion of sustainability performance would be merited where environmental or social concerns may affect a company's ability to expand operations or may damage the reputation and brand value. New codes of corporate governance have increasingly begun to highlight the need for discussion of board-level attention to risks associated with sustainability concerns. New methodologies are required to link performance in the economic, environmental and social dimensions to financial performance. Like other business analysis tools, the underlying assumptions and measures will have to be industry-specific to provide meaningful and comparable performance benchmarks.

During the last years the quantity and quality of social and environmental reports published by companies from different countries has improved and increased, but Romanian developments in this aria are at an early stage, like in others developing countries. According to Corporate Registration (2007), only four Romanian entities are included in the database and only one (from a total of 2173 companies around the world) published a corporate social report. There is no prior research undertaken to determine implementation of corporate social-economic and environmental reporting at the firm level in Romania. Thus, it is important for us to investigate the factors that contribute to the adoption of corporate social-economic and environmental reporting as separate and with differentiate contents reports, so that appropriate model for including such a reporting into the financial statement can be developed.

All these issues lead us to the conclusion that a framework for reporting on corporate social-economic and environmental is necessary for European and international entities, but also for Romanian ones. Our research is aimed through its scope to encourage companies to expand their financial reporting on corporate social-economic and environmental information. The findings of this paper will help formulate government policy decisions that promote corporate social-economic and environmental reporting and thereby make entities more responsive to changes in the natural and social environments.

References

Albuquerque, P., Bronnenberg, B.J., Corbett, C.J., „A Spatio-Temporal Analysis of the Global Diffusion of ISO 9000 and ISO 14000 Certification", *Management Science*, Vol. 53, No. 3, 2007, pp. 451-468

Altenburger, O., Schaffhauser-Linzatti, M., „About scope and focus of notes – a new approach to highlight intangibles", *30th Annual Congress of European Accounting Association*, http://www.1icom.pt/eaa2007/papers/EAA2007_1086_final.pdf

Association of Chartered Certified Accountants (ACCA) (2001). *Environmental, Social and Sustainability Reporting on the World Wide Web: A Guide to Best Practice*, Certified Accountants Educational Trust, London

Bebbington, J., Thomson, I. (1996). *Business Conceptions of Sustainability and the Implications for Accountancy*, London, ACCA

Beretta, S., Bozzolan, S., „Reply to: Discussions of A framework for the analysis of firm risk communication", *The International Journal of Accounting*, Vol. 39, No. 3, 2004, pp. 303-305

Corporate Register (2007). www.corporateregister.com

Epstein, M.J., Birchard, B. (1999). *Counting What Counts: Turning Corporate Accountability Into Competitive Advantage*, Reading, MA Perseus Books

European Commission (June 2001). *Recommendation on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies*, Brussels, www.europa.eu.int

Fédération des Experts Comptables Européens (FEE) (2000). *Towards a Generally Accepted Framework for Environmental Reporting*, www.fee.be

Gary, S. (2005). *Meeting the challenge of performance reporting under the EU Accounts Modernisation Directive*, FSN Publishing Limited, London

Global Reporting Initiative (GRI) (2002). *Sustainability Reporting Guidelines*, www.globalreporting.org

Gray, R., Owen, D., Adams, C. (1996). *Accounting and accountability*, Hemel Hempstead, Prentice Hall PH

Gray, R.H., Kouhy, R., Lavers, S. (1995). *Corporate social and environmental reporting: A review of the literature and a longitudinal study of UK disclosure,* Accounting, Auditing and Accountability Journal, Vol. 8, No. 2, pp. 47-77

Harrison, G.L., McKinnon, J.L. „Culture and accounting change: A new perspective on corporate reporting regulation and accounting policy formulation", Accounting, Organizations and Society, Vol. 11, Issue 3, 1986, pp. 233-252

International Federation of Accountants (IFAC) (2005). *International Guidance Document: Environmental Management Accounting*, www.ifac.org

Ite, U., „Multinationals and corporate social responsibility in developing countries: a case study of Nigeria", *Corporate Social - Responsibility and Environmental Management*, Chichester, Mar. Vol. 11, Issue 1, 2004, pp. 1-12

KPMG (1997-2005). *KPMG International Survey of Environmental Reporting*, KPMG, London, www.kpmg.com

Line, M., Hawley, H., Krut, R., „The Development of Global Environmental and Social Reporting, *Corporate Environmental Strategy*, Vol. 9, Issue 1, 2002, pp. 69-78

Lober, D.J., Bynum, D., Campbell, E., Jacques M., „The 100 Plus Corporate Environmental Report Study: A Survey of an Evolving Environmental Management Tool", *Business Strategy and the Environment*, Vol. 6, 1997, pp. 57-73

Moneva, J.M., Archel, P., Correa, C., „GRI and the camouflaging of corporate unsustainability", *Accounting Forum*, Vol. 30, No. 2, 2006, pp. 121-137

O'Dwyer, B., „Managerial perceptions of corporate social disclosure. An Irish story", *Accounting, Auditing & Accountability Journal*, Bradford, Vol. 15, Issue 3, 2006, pp. 406-437

Pedwell, K., „A Comparative Analysis of Corporate Social Responsibility Reporting In Developed and Developing Countries", *Annual Congress of European Accounting Association*, 2004, Prague

Rahaman, A.S., Lawrence, S., Roper, J., „Social and environmental reporting at the VRA: institutionalised legitimacy or legitimation crisis?", *Critical Perspectives on Accounting*, Volume 15, Issue 1, 2004, pp. 35-56

Solomon, A., Lewis, L., „Incentives and disincentives for corporate environmental disclosure", Business Strategy and the Environment, May/Jun, 2002, pp. 154-169

Villiers, C., Staden, C.J., „Can less environmental disclosure have a legitimising effect? Evidence from Africa", *Accounting, Organizations and Society*, Volume 31, Issue 8, 2006, pp. 763-781