Scientific Journals
Maritime University of Szczecin

Zeszyty Naukowe
Akademia Morska w Szczecinie

2012, 31(103) pp. 83–88

2012, 31(103) s. 83–88

Sustainability report. Disclosure the impact of business on society and the environment

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Key words: CSR, stakeholders, GRI Guidelines, sustainability reporting

Abstract

In this paper sustainability reporting issues are presented. The first part indicates on motivating factors for disclosure by companies their impact on the environment and society and discusses main audience of such reports. Subsequently, attention is drawn to the wrong perception of non-financial disclosure and then step-by-step reporting procedure is presented, as well as international sustainability reporting guidelines.

Introduction

The concept of corporate social responsibility (CSR) relates to identifying and balancing stakeholder expectations while taking into account social and environmental consequences of the company's activities. For this reason, the concept is also called *company stakeholder responsibility* [1]. In the literature, stakeholders are often determined as carriers of the risk, interested parties or groups, strategic supporters. They are those groups who affect and/or could be affected by an organization's activities, products or services and associated performance. Implementation of corporate social responsibility principles into the daily business is not an easy task. Stakeholders increasingly demand greater transparency from companies and proofs how they apply the CSR principles into practice. Companies in order to meet those expectations communicate stakeholders on actions being taken and their consequences. Dialogue with stakeholders is inherent in the CSR implementation process and this is why the communication of undertaken action is extremely important for the socially responsible organization. It allows the transmission of information both, inside and outside the organization. However, we must bear in mind that only reliable message will provide the value to the receiver. To authenticate disclosed by companies information it is necessary to assure independent verification, carried out by a third-party organization.

Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. "Sustainability reporting" is a broad term considered synonymous with others used to describe reporting on economic, environmental, and social impacts (e.g.: triple bottom line, corporate responsibility reporting, etc.) [2].

Why Report on Sustainability?

In the face of the current financial crisis which result in a decrease of social trust it is justified to take the topic on sustainability reporting. The increasing expectations of stakeholders to transparent and responsible carrying the business imply the measurement and disclosure of company's impact on society and the environment. Corporations and their stakeholders more often perceive that intangible assets impact financial performance. Consumers and investors want to make informed choices and rational investment decisions and that is the reason why they demand the disclosure of reliable information on the enterprises activities impact on society and the environment.

Significant motivating factor in writing a sustainability report is the opportunity to re-brand or refresh a company's image. Reporting on economic, social and environmental benefits associated with operating more sustainably can enhance an organization's image [3].

Additional reasons for reporting that have been documented in the literature include to:

– meet shareholder expectations or requests;
– demonstrate commitments to employees and other internal stakeholders;
– meet external certification or registration requirements;
– document success stories;
– demonstrate leadership;
– set the organization apart from its competitors [4].

Preparing and publishing reports is an opportunity to communicate externally and internally within an organization. Spence [5] found that investors and employees are the most common readers of social and environmental reports. The number of people using sustainability reports to gain data on organizations is growing. As people are more and more aware of sustainability issues, reports on sustainability issues have become one of the key ways of communication with companies [6]. Social reports can be a valuable source of knowledge for many diverse groups:

- Investors. Business environment is characterized by its variability. Sustainability report informs investors whether the company manages existing in its environment business risk. On this basis, investors are able to consider whether it is worth to take a risk investing in companies not fully managing the changes in their own business environment.
- Consumers and customers by making shopping decisions affect the activities of enterprises. Not to attach enough attention to environmental and social impacts of their products can cause a boycott, block their sale and/or withdrawal from the market.
- Employees. Employees and their representative groups are interested in information about sustainable development in order to judge if the company is a stable employer and a respected corporate citizen. They increasingly want to work for companies that are contributing to society besides being economically successful. They are also interested in information about levels of remuneration, retirement benefits and the nature and extent of their employment opportunities [7].
- Contractors – long payment periods, poor quality of the delivered goods, frequent complaints and unpunctuality are important issues for suppliers and the customers. Start of cooperation with new business partner always brings uncertainty. Sustainability report should contain information on the supply chain. Sustainability reports sometimes provide information on whether and what social and environmental requirements the company puts on its suppliers. Therefore, the report is valuable knowledge database when searching for new business partners.
- Competitors – companies are watching the actions of its market rivals. In this way, identify market trends, acquire the knowledge of good practices, but also learn from mistakes of others [8].

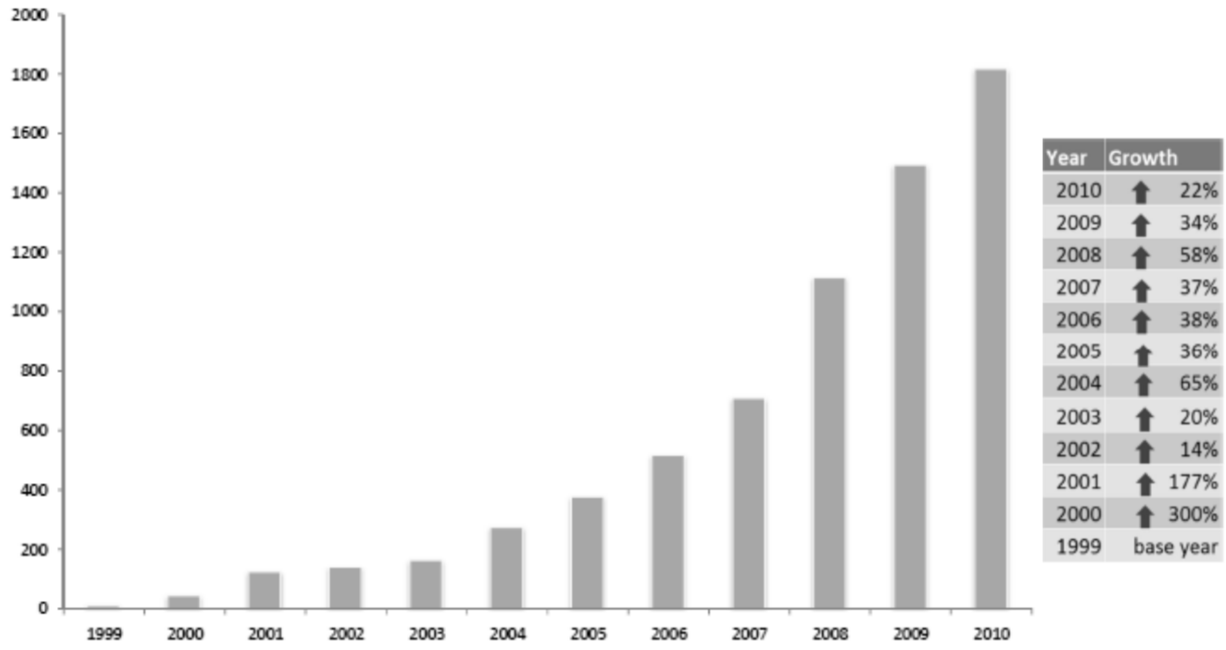

Fig. 1. Number of issued sustainability reports from 1999 to 2010 [9]

Above are listed only some of the most important target groups of sustainability reports. However, in the report, valuable information can be found by anyone who is interested in the activities of an individual company.

Sustainability reporting is getting now a global standard. From year to year the number of reporting enterprises is growing (see Fig. 1). The European Union is the most active region in the world in terms of sustainability reporting. According to GRI statistics [9] 45% of published worldwide sustainability reports in 2010 year came from Europe.

The process of creating a sustainability report

Sustainability report should contain detailed presentation of action plans and performance indicators in the scope of sustainable development, and this is the reason why it becomes crucial communication tool with the stakeholders. A sustainability report should provide a balanced and reasonable representation of the sustainability performance of a reporting organization – including both, positive and negative contributions [10]. The problem appears when the report does not contain key data for the report's receiver. Then the document does not meet its basic functions. Author of the paper made a decision to present below process of sustainability reporting according to guidelines developed by the World Business Council for Sustainable Development. Reporting process proposed by the organization comprise of five stages: defining the reporting objectives, planning the report, constructing the report, distributing, collecting and analyzing the feedback (see Fig. 2). On each stage there are some

Fig. 2. Step-by-step approach to reporting and key questions [11]

questions which must be answered to successfully complete the reporting process.

It appears, however, that using the guidance how to prepare sustainability report is not sufficient so that the report was considered to be a reliable and trustworthy. Study conducted by KPMG and SustainAbility from October 2007 through the end of January 2008, the "Readers' Choice Survey" looks for the first time at the readers, their preferences and behavior. Nearly 2300 readers and non-readers from around the world answered the survey questions. Over 450 respondents indicated that they do not currently use sustainability reports. Non-readers asked "which of the following could change your attitude towards using sustainability reports?" indicated four out of the top five reporting elements identified by the group of current users:

1. Improved communication of sustainability performance by companies.
2. Clear evidence of the benefits of addressing sustainability issues along with overall business performance.
3. Improved education of the world by organizations such as GRI about sustainability reporting and its value.
4. Independent verification of sustainability reports to build trust in such reporting.
5. Improved quality of sustainability reporting to build trust in such reporting.

This study also shows that majority of readers feel that assurance is important, both on sustainability reports and on sustainability performance. External verification is the main factor influencing report credibility. Reporting standards such as the G3 GRI Guidelines and mechanisms such as assurance are intended to help improve the content and quality of reports. In the study a convincing 90% of readers see reporting standards as important for building trust – the G3 GRI Guidelines being seen as the most relevant by far in this area [12].

Sustainability reporting guidelines

One of the ways in which company can inform all interested parties about its economic, social and environmental undertakings are by developing and issuing sustainability report. Due to the fact that the concept of social responsibility is implemented in companies on a voluntary basis, content of sustainability reports is also voluntary. The situation intensifies the problem of assessment and comparing companies' sustainability performance. CSR report can serve as an excellent communication tool, but there is a condition which must be fulfilled. The content of the report must be reflected in practice. Unfortunately, most of the published reports are more like public relations products or commercial brochure. These reports are usually issued on a nice paper, decorated with beautiful nature images, smiling children and happy elderly, etc. Such a document has little in common with report on company's economic, social and environmental performance. Sustainability reporting is not about creating colorful folders showing how the company generously shares with its profits, but how responsibly those profits create. Another problem is showing in the report only favorable data and skipping or presentation in limited way difficult issues. Mistakes in preparing sustainability report can have its source in misunderstanding the concept of CSR. In particular we are dealing here with a lack of knowledge in the scope of CSR. The concept is often confused with public relations, philanthropic or sponsorship activities, as well as there is a lack of understanding of the underlying principles of CSR. Sustainability report will only meet its function when its form will resemble financial report, i.e. it should refer to a specific reporting period, retain comparable and contain real data. Credible sustainability report can be developed through complying with the guidelines of international standards, which define the scope of the published information. Such guidelines define the scope of the reported information so that a company has no possibility to select data and avoid some of them. The content of sustainability report should be audited by an independent organization to increase credibility of it and to make sure that the picture presented in it is real.

One of the most popular reporting tools are guidelines of Global Reporting Initiative. The Global Reporting Initiative (GRI), created in 1997, is an international network of members focused on the development and promulgation of appropriate principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. The GRI encompasses some 30,000 members from business and non-governmental organizations. More than 70 percent of reporting companies and organizations worldwide use the GRI framework to report on their sustainability efforts [13]. All GRI Reporting Framework documents are developed using a process that seeks consensus through dialogue between stakeholders from business, the investor community, labor, civil society, accounting, academia, and others. All Reporting Framework documents are subject to testing and continuous improvement [10].

GRI guidelines consist of unified reporting rules concerning organization's economic, environmental and social performance. They indicate standard information that should be included in the report and consists of two parts. Part one contain Reporting Principles and Guidance and Part two – Standard Disclosures (including Performance Indicators). These elements are considered to be of equal in weight and importance. Standard Disclosures that should be included in sustainability reports are (see Fig. 3):

– Strategy and Profile: Disclosures that set the overall context for understanding organizational performance such as its strategy, profile, and governance.
– Management Approach: Disclosures that cover how an organization addresses a given set of topics in order to provide context for understanding performance in a specific area.
– Performance Indicators: Indicators that elicit comparable information on the economic, environmental, and social performance of the organization [10].

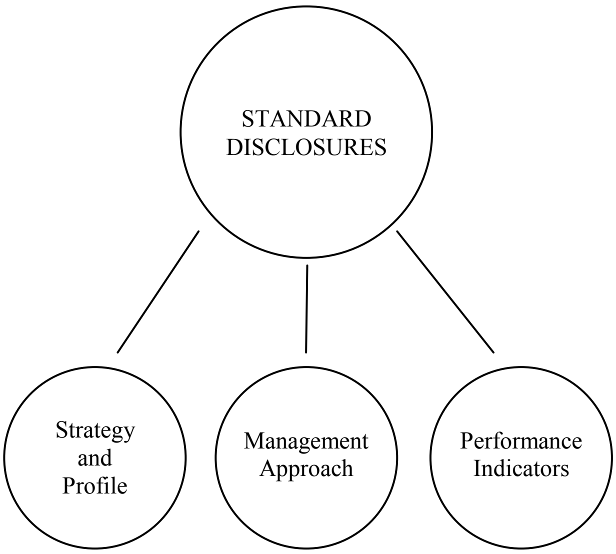

Fig. .3. Sustainability Report Standard Disclosures

The information is essential and important for most organizations and is of interest to most stakeholders.

Outside of the indicators in the three categories (see Table 1), GRI has identified the indicators for specific sectors: airport operators, construction and real estate, electric utilities, event organizers, financial services, food processing, mining and metals, NGO, and oil and gas sectors. Sector supplements complement the GRI guidelines on interpretations and guidance regarding application of them in particular sector, as well as contain performance indicators specific to that sector. GRI sector supplements are designed for use together with the GRI guidelines, and not instead of them.

Table 1. Categories of Sustainability Performance Indicators according to GRI G3 Guidelines [2]

Category	Sub-category	Aspects
Economic		Economic Performance, Market Presence, Indirect economic Impacts.
Environ-mental		Materials, Energy, Water, Biodiversity, Emissions, Effluents, and Waste, Products and Services, Compliance, Transport, Overall.
Social	Labour	Employment, Labour / Management Relations, Occupational Health and Safety, Training and Education, Diversity and Equal Opportunity.
	Human Rights	Investment and Procurement Practices, Non-discrimination, Freedom of Association and Collective Bargaining, Child Labour, Forced and Compulsory Labour, Security Practices, Indigenous Rights.
	Society	Community, Corruption, Public Policy, Anti-Competitive Behaviour, Compliance.
	Product Responsi-bility	Customer Health and Safety, Product and Service Labelling, Marketing Communications, Customer Privacy, Compliance.

Sustainability Reports can be prepared either by all GRI guidelines, or within the GRI framework. The second situation takes place when a company partially addresses GRI guidelines, and at the same time creates its own indicators.

Before the completion of sustainability report preparation the authors should declare a level that has been achieved in terms of reporting. It can be done by using GRI application level system (the individual levels of the application have been marked with the letters C, B and A). Such a declaration gives clear message about the items which have been used during the report preparation.

Sustainability reporting gradually becomes mandatory for companies in certain European Union countries (in particular for large companies listed on stock exchanges). In France, since 2001 all of the companies quoted on the stock exchange must have submit information on their social and environmental activities in their annual financial statements. In the United Kingdom such a requirement has functioned since 2007. In Denmark as from 2010, the biggest public and private companies and institutional investors have been obliged to submit sustainability reports. Sweden since 2009 has obliged public companies to issue sustainability reports consistent with the GRI guidelines. Also Spain as from 2012, for public companies and firms employing more than 1,000 introduces mandatory CSR reporting. In Poland sustainability reports compatible with GRI guidelines are issued, on a voluntary basis, inter alia by: TP SA, Ringier Axel Springer Poland, Vattenfall, LOTOS SA, BRE Bank SA, PKN Orlen.

Conclusions

The concept of CSR is characterized by a wide range of topics and the multiplicity of stakeholders, whose expectations the company should take into account. Sustainability reporting is inherent part of the concept and is defined as the practice of providing information to external and internal stakeholders on the economic, environmental and social results achieved by an organization. To make informed and rational decisions consumers, investors, employees and others groups of stakeholders more and more often search for real data concerning business impact on environment and society. Unfortunately, not always the information can be found in these reports, sometimes the documents only resemble the sustainability report. This situation is the result of misunderstanding the concept of CSR and treating it as a tool for public relations activities. Such understanding of the concept implies creating reports, which more remind commercial brochures than the sustainability report. There are some procedures and hints developed inter alia by Global Reporting Initiative and World Business Council for Sustainable Development which are very helpful in sustainability report preparation. The guidelines define the scope of the published information and thus prevent avoiding uncomfortable for a company issues. Creating report consistent with the guidelines may be not sufficient to meet expectations of the stakeholders. The way to assure credibility of the reported information is external and independent verification of the report.

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