CONCEPTS AND POLICIES OF SOCIAL AND ENVIRONMENTAL STANDARDS AND CORPORATE REPORTING PRACTICE

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Abstract:
Social and environmental frameworks are now more than simply optional and voluntary reporting measures for economic entities, showing important progression toward standardized reporting. Recognizing this, will allow reporting, whether mandatory or voluntary, to adopt a more comprehensive and integrated approach in considering disclosure issues as part of corporate responsibilities. Using fundamental research and content analyze, we critically examined specific social and environmental frameworks and related assurance standards. We correlated the theoretical findings to practical appliance of corporate disclosure and assurance requirements. Results show that there are significant differences in voluntarily application of guidelines, principles, certification, and assurance standards.

Key words: *Corporate Reporting, Social and Environmental Disclosure, Global Reporting Initiative, United Nations Global Compact, Assurance Standards*

JEL classification: *M 40, M 48, Q 51, Q 56, Q 57*

1. INTRODUCTION

Corporate social reporting has been developed to extend the traditional model of financial reporting which emphasizes company's economic prosperity, to incorporate social and environmental dimensions (Elkington, 1999). Corporate reporting and assurance guidelines are now more than simply optional and voluntary reporting measures for listed companies. Corporate Social Responsibility (CSR) disclosure has been of increasing interest as organizations recognize that their actions have consequences that affect all their stakeholders.

The recent accounting scandals look different when viewed from the perspectives of the political/regulatory process and of the market for corporate governance and financial reporting (Ball, 2009). In the face of the major crisis in corporate governance and financial reporting, the accounting research community's response has been lamentably slow and inadequate (Parker, 2007). Reporting corporate social 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.

In the current environment of confusion and uncertainty, sustainability reporting frameworks have much to contribute. Triggered by the financial crisis, issues of comprehensive risk management, long-term performance and ethics are rapidly gaining relevance and consideration. Restoring confidence and trust in markets will require a shift to long-term sustainable value creation, and corporate responsibility must be an instrument towards this end. Also, companies' decision whether or not to seek independent, external assurance of their social and environmental reporting will gain more and more support and appliance in corporate reports.

Considering all the above, we focus on fundamental research that is related to inductive accounting theory and uses scientific methods for identification of corporate reporting theoretical and practical difficulties in economic entities. Therefore, we analyzed the status of development in social and environmental reporting and assurance standards and we synthesize their requirements. We completed the fundamental research by conducting a content analyze on the extent of sustainability reports published by the first 50 companies on Global Fortune 500 (classified on the revenue) in order to establish some disclosure models.

2. RESEARCH METHODS AND THEIR APPLIANCE FOR THE STUDY

Fundamental research

Fundamental research is experimental and theoretical work undertaken to acquire new and advanced knowledge. This theoretical work is often intended to increase understanding of certain phenomena or behavior but does not seek to resolve or manage these problems. In the study, fundamental research aimed critical analysis of social and environmental standards requirements on reporting and auditing information disclosed by economic entities.

Based on literature review we have identified the main international initiatives on social and environmental reporting as: Global Reporting Initiative, United Nation Global Compact Principles, AccountAbility 1000 Assurance Standard (AA1000AS), International Auditing and Assurance Standard 3000 (ISAE 3000), ISO 14000 and ISO 26000 standards. In this part of the study we presented the main requirements.

Content analyze, sample and data collection

In order to develop some measure of social and environmental disclosure, we carried out a content analysis of the corporate social responsibility (CSR) reports published by the companies of our sample. Content analysis is defined as a method of codifying text into different groups depending on selected criteria (Weber, 1990). Content analysis is most often viewed in CSR as “a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity” (Abbot and Monsen, 1979). By definition, content analyze is both qualitative and quantitative technique, employing qualitative data which are subsequently quantified, and concentration on either approach may lead researchers to overlook the challenges arising from the method’s multifaceted character (Gephart, 2004).

Considering all this information and correlating them with our study objectives, we establish the research unit to be corporate report for a sample of the 50 largest companies, classified by Fortune Global according to 2008 turnover level. To meet the objectives of this study, we downloaded from the companies’ website the social and environmental reports and have made an analysis of their contents.

3. SOCIAL AND ENVIRONMENTAL REFERENTIALS ON REPORTING AND ASSURANCE

Since the beginning of the last century, corporate governance has arguably commanded the highest levels of attention and debate among legislators, regulators, professions, business bodies, media and the general community (Parker, 2005a). The greater number of international corporate frauds and failures has brought company directors, accounting regulations, auditors, and the accounting profession into sharp focus and subject to severe criticism.

3.1 GLOBAL REPORTING INITIATIVE (GRI)

The Global Reporting Initiative (GRI) defines the goal of sustainable development as meeting the needs of the present without compromising the ability of future generations to fulfill their own needs. Sustainability reports based on the GRI Reporting Framework disclose outcomes and results that occurred within the reporting period in the context of the organization's commitments, strategy, and management approach. Its purpose is to communicate clearly and openly about sustainability and to be used by organizations of any size, sector, or location (GRI, 2006).

According to GRI Framework, the *principles of preparing a sustainability report* are: materiality, stakeholder inclusiveness, sustainability context, and completeness. *Materiality* for sustainability reporting is not limited only to those sustainability topics that have a significant financial impact on the organization, but also includes considering economic, environmental, and social near or long term impacts. The reporting organization should identify its *stakeholders* and explain in the report how it has responded to their reasonable expectations and interests. Systematic stakeholder engagement enhances the receptivity and the usefulness of the report. Information on sustainable performance should be placed in *context*. Reporting only on trends in individual performance (or the efficiency of the organization) will fail to respond to this underlying question. *Completeness* primarily encompasses the dimensions of scope, boundary, and time. The concept of completeness can also be used to refer to practices in information collection and whether the presentation of information is reasonable and appropriate.

GRI Framework underlines a number of *principles for qualitative disclosure*. Those are: balance, comparability, accuracy, timeliness, clarity, and reliability. A balanced disclosure means that the report should reflect positive and negative aspects of the organization's performance to enable a reasoned assessment of overall performance. Reports should clearly distinguish between factual presentation and the reporting organization's interpretation of information. Reported information should be presented in a manner that enables stakeholders to analyze changes in the organization's performance over time, and could support analysis relative to other organizations. The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance. Reporting must occur on a regular schedule and information must be available in time for stakeholders to make informed decisions. The report should present information in a way that is understandable, accessible, and usable by the organization's range of stakeholders. Reliability of reporting means that information and processes should be gathered, recorded, compiled, analyzed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.

The *Guidelines* identify information that is relevant and material to most organizations and of interest to most stakeholders for reporting the three types of standard disclosures:

- 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 extract comparable information on the economic, environmental, and social performance of the organization.

Reporting organizations are encouraged to follow this structure in compiling their reports, however, other formats may be chosen. A content index is provided for entities reporting on GRI Framework in order to identify information by referring to page numbers the standard disclosure can be found.

3.2. THE UNITED NATIONS GLOBAL COMPACT (UNGC)

The United Nations Global Compact, also known as Global Compact or UNGC, is a United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. It is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. These principles are exposed in the following table.

Table 1. UN Global Compact's ten principles

Principles' areas	**Principles content**
Human Rights	*Principle 1* Businesses should support and respect the protection of internationally proclaimed human rights. *Principle 2* Make sure that they are not complicit in human rights abuses.
Labour Standards	*Principle 3* Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. *Principle 4* The elimination of all forms of forced and compulsory labour. *Principle 5* The effective abolition of child labour. *Principle 6* The elimination of discrimination in respect of employment and occupation.
Environment	*Principle 7* Businesses should support a precautionary approach to environmental challenges. *Principle 8* Undertake initiatives to promote greater environmental responsibility. *Principle 9* Encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	*Principle 10* Businesses should work against corruption in all its forms, including extortion and bribery.

One of the explicit commitments that a company makes when it participates in the Global Compact is to produce an annual public Communication on Progress (COP). A COP is a public communication to stakeholders (consumers, employees, organized labour, shareholders, media, government) on the progress the company has made in implementing the ten principles in their business activities and, where appropriate, in supporting broader UN goals through partnerships.

The Global Compact exists to assist the private sector in the management of increasingly complex risks and opportunities in the environmental, social and governance realms. By partnering with companies in this way, and leveraging the expertise and capacities of a range of other stakeholders, the Global Compact seeks to embed markets and societies with universal principles and values for the benefit of all.

3.3. ISO AND SOCIAL RESPONSIBILITY

ISO 14000 standards are applicable to the environmental aspects of the organizations' activities that can be controlled and need to be influenced. It is a voluntary one and does not replace legislative requirements. Therefore, companies marked important resources for environmental policy development. The most spread environmental policy exposed in annual reports is to reduce consumption of energy and raw materials, less polluting discharges from plants and development of products that comply with future environmental standards.

ISO 14001:2004 specifies requirements for an environmental management system to enable an organization to develop and implement a policy and objectives which take into account legal requirements and other requirements to which the organization subscribes, and information about significant environmental aspects. It applies to those environmental aspects that the organization can control and influence, and does not state specific environmental performance criteria. ISO 14004:2004 provides guidance on the establishment, implementation, maintenance and improvement of an environmental management system and its coordination with other management systems. While the guidelines in ISO 14004:2004 are consistent with the ISO 14001:2004 environmental management system model, they are not intended to provide interpretations of the requirements of ISO 14001:2004.

ISO has launched the development of the future ISO 26000 standard providing voluntary guidance on social responsibility. ISO 26000 contains guidance, not requirements, and therefore will not be for use as a certification standard like ISO 9001:2000 and ISO 14001:2004. The standard will address organizations of all types in both public and private sectors, in developed and developing countries. ISO 26000 will add value to existing social responsibility work by:

- Developing an international consensus on what SR means and the SR issues that organizations need to address,
- Providing guidance on translating principles into effective actions, and – refining best practices that have already evolved and disseminating the information worldwide for the good of the international community.

The future ISO 26000 will distil a globally relevant understanding of what social responsibility is and what organizations need to do to operate in a socially responsible way. It will be consistent with and complement relevant declarations and conventions by the United Nations and its constituents, notably the International Labor Organization (ILO), the United Nations Global Compact Office (UNGCO) and the Organisation for Economic Co-operation and Development (OECD), with whom ISO has established a Memorandum of Understanding to ensure consistency.

3.4. CORPORATE RESPONSIBILITY ASSURANCE STANDARDS: AA1000 AND ISAE3000

Reporting organizations and their stakeholders increasingly accept that robust independent external assurance is a key way of increasing the credibility and effectiveness of their sustainability reporting, and ultimately their performance. In itself, external assurance is not intended to provide absolute verification on how effectively an organization is managing its sustainability performance. Enhancing trust in an organization's reporting and sustainability performance depends first and foremost on effective internal management and control. Independent assurance complements internal audit activities to ensure that information reported is relevant, reliable, and complete.

GRI encourages the independent assurance of sustainability reports and the development of standards and guidelines for the assurance process to be followed by assurance providers. However, independent assurance of a sustainability report is not a requirement for GRI reporting. A similar initiative has also been introduced by ISEA (Owen, 2003). The standard is called Accountability AA1000 assurance standard and is similar to GRI (Hopkins, 2003). However, AA1000 does not directly concern itself with prescribing reporting formats and is therefore not as strict in terms of reporting guidelines (Golob and Bartlett, 2007). Another assurance standard that companies referred within their corporate report is International Standard on Assurance Engagements (ISAE 3000), designed to address ethical requirements; quality control; engagement acceptance; planning; expert materials; obtaining evidence; documentation; and preparing assurance reports.

AA1000AS and ISAE3000 are widely recognized assurance standards to guide assurance providers. However, there are difficulties in providing assurance on sustainability reporting where an organization has not used a standard defined reporting framework. Where organizations use the GRI Reporting Guidelines, for example, assurance providers can use this framework, but where the GRI is not used it is more difficult for the assurer to comment on completeness in the absence of a defined scope.

AA1000 tended to result in a narrative statement highlighting the strengths and weaknesses of report content, as well as the organization's underlying management systems and its responsiveness to stakeholder concerns. On the other hand, ISAE3000 placed greater emphasis on the limitations and weaknesses of company reporting. The scope and quality of assurance evolves, as does the quality of reporting. From an organizational perspective, the quality of the assurance of sustainability reporting can be influenced by service provider independence and competency, business understanding, and appreciation of user expectation.

A KPMG (2008) survey shows a variation in the scope of the assurance engagement and the approach and methodologies used. In large companies, the use of the International Standard for Assurance Engagements (ISAE) 3000 is predominant particularly as it has become obligatory for accounting firms undertaking corporate responsibility assurance if there is no national alternative. AA1000AS is designed to complement and accommodate other assurance practices such as ISAE 3000.

4. PRACTICAL MODELS FOR SOCIAL AND ENVIRONMENTAL STANDARDS' APPLICATION

Correlated presentation of social, economic and environmental information required by GRI and Global Compact

We continue the study by presenting a pattern of disclosing cross-references information that refer to compliance with GRI / UNCG in relation to specific social and environmental information included in the CSR report. To this aim we chose the company PEMEX, which contains references to all aspects of our research subjects and has the most extensive report of companies that meet the above criteria.

Table 2. Relation between the GRI Indicators and the UNGC Principles

UNGC Principles	GRI Indicator	CSR Report's Chapter
Human Rights		
GC Principle 1	EC5, LA4, LA6-9, LA13, LA14, HR1-9, SO5, PR1, PR2, PR8	Transparency and Dialogue Health and Safety Development of PEMEX Employees
GC Principle 2	HR1-9, SO5	
Labor		
GC Principle 3	LA4, LA5, HR1-3, HR5, SO5	Transparency and Dialogue Health and Safety Development of PEMEX Employees
GC Principle 4	HR1-3, HR7, SO5	
GC Principle 5	HR1-3, HR6, SO5	
GC Principle 6	EC7, LA2, LA13, LA14, HR1-4, SO5	
Environment		
GC Principle 7	EC2, EN18, EN26, EN30, SO5	Development of the Nation Transparency and Dialogue Climate Change Environment Protection Environmental Performance Quality of Products and Services
GC Principle 8	EN1-30, SO5, PR3, PR4	
GC Principle 9	EN2, EN5-7, EN10, EN18, EN26, EN27, EN30, SO5	

UNGC Principles	GRI Indicator	CSR Report's Chapter
Anti-corruption		
GC Principle 10	SO2-6	Transparency and Dialogue Development of PEMEX Employees

The index describes the relation between the GRI Indicators and the United Nations Global Compact Principles. This relation was made following the guidance "Making the Connection", document that introduces and explores ways to address GRI and Global Compact requirements simultaneously.

Assurance disclosure referring to AA1000 and ISAE3000

The reference to AA1000 standard is made in a separate section of the report, titled *Principles that govern this report* and briefly touch the main requirements of the standard. Disclosure model is as follows:

> *"This report is based on the 2003 version of the AA1000 Assurance Standard, taking into account the Principles of inclusivity: as a commitment to identify impacts among the three sustainability dimensions; materiality: as a principle to state whether the Reporting Organization has included the information required by its Stakeholders; completeness: as a principle to evaluate the extent to which the Reporting Organization can identify and understand material aspects of its Sustainability Performance; and responsiveness: as a principle to evaluate whether the Reporting Organization has responded to Stakeholder concerns, as well as to an adequate communication." (PEMEX's Social responsibility report, 2008)*

If the references to AA1000 Assurance Standard are, in some reports, detailed according to the company's activity, on the ISAE 3000, corporate reports contain only a compliance with standards simple mention included in the assurance statement. We found detailed information in the HSBC's CSR report, and we present them as disclosing sample:

> *"Assurance work performed*
>
> *We conducted this limited assurance engagement in accordance with the International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board ('ISAE 3000'). [...] A limited assurance engagement is less in scope than a reasonable assurance engagement under ISAE 3000." (HSBC Holdings' Sustainability Report, 2008)*

CONCLUSION

We consider reporting as an important communication tool which can ensure greater corporate transparency and enable a better engagement with stakeholders. Sustainability reporting is largely voluntary and appears to be driven by market pressures. Providing accurate, reliable and credible financial and non-financial information to the various stakeholder groups will ensure both the short-term profitability of the company and its long-term sustainability. There is opportunity in the recommendations contained in sustainability standards, in terms of which companies can gain material benefits from their compliance with sustainable business practice not the least of which is that, in the near future, perhaps, compliance will become mandatory rather than voluntary.

More and more companies provide concise and focused sustainability information in their annual report, as a proof to reliable information, with full sustainability reports on their websites accompanying the written reports. This format of reporting reflects a growing maturity regarding sustainability reporting. But, the voluntary nature of sustainability reporting explains the great differences in the content and the lack of assurance of disclosed social and environmental information. A lack of external assurance on sustainability reporting raises concerns regarding its accuracy and reliability and is an aspect of sustainability reporting to which companies should give due consideration for next years.

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