DEVELOPMENT OF CORPORATE SUSTAINABILITY REPORTS IN EUROPE FROM 2014 to 2017

Schüler Timm[1] and Kirschner Carsten[2]
[1,2)] *The Bucharest University of Economic Studies Bucharest, Romania*
E-mail: timmcs@gmx.net; E-mail: carsten.kirschner@ok.de

Abstract
This study covers research conducted to assess the development of sustainability reporting in Europe from 2014 to 2017 based on the Sustainability Disclosure Database from the Global Reporting Initiative. Sustainability reporting is a key platform for organizations to measure, understand and communicate their economic, environmental, social and governance performance in order to set goals, and manage change in corporate social responsibility more effectively. EU regulation on sustainability reporting requirements increased since 2014. This study explores whether there are notable structural changes in the European sustainability reporting universe regarding specific characteristics. This comprises quantitative-descriptive analyses regarding geographic and institutional factors of reporting organizations as well as applied reporting frameworks and references to sustainability policies.

Keywords
Sustainability, Sustainability reporting, Corporate Social Responsibility, Reporting

JEL Classification
Q56, M41

Introduction
Nowadays, it is no longer a question of reporting on corporate activity and the sustainability performance it provides, but rather "what" and "how" to report, which raises questions regarding the quality of sustainability reporting. Throughout the world, enterprises are choosing to be more transparent about perceived social responsibility due to increasing stakeholder pressure as reporting addressees by drafting a sustainability report on the impact of their operations on the environment and society and how these impacts are handled.
Sustainability reporting is a key tool for many companies to actively meet the increased transparency requirements and information needs of various stakeholders. Gray et al. (1987) define sustainability reporting as reporting to society and to certain interest groups on the social and environmental impact of entrepreneurial activity (Gallego 2006, pp. 78-97). Sustainability reporting should demonstrate that companies are aware of the environmental and social challenges (such as climate change, water scarcity, ecosystem degradation, food security, urbanization, population growth, etc.) and how companies understand how these things affect their business. Stakeholder communication can be seen as a compelling tool to build trust, loyalty and to contribute to the realization of numerous business benefits

(Morsing, 2006, pp. 323f). In order to increase the quality of sustainability reporting, there are different reporting frameworks (such as UN Global Compact, OECD Guidelines for multinational companies or ISO 26000 by the International Organization for Standardization). The world's most commonly used framework are the reporting guidelines from the Global Reporting Initiative (“GRI”). The GRI guidance can be considered as the world-wide de facto standard for sustainability reporting (Werner, 2005, p. 73).

The objective of the GRI is that new GRI standards of sustainability reporting to be can be maintained and more flexibility with clearer instructions, a clear terminology and a modular design to facilitate users creating a sustainability report without content redundancies and a logical structure.

This article contributes to the growing scholarship on the of development of sustainability reporting. We first illustrate the emerging legal context of the reporting requirements. The second part of our article is an empirical analysis of European reports drawn up on the basis of the Global Reporting Initiative guidelines in the time period from 2014 to 2017, and looks if and how specific institutional factors of the sustainability reporting universe changed during the observed period.

Review of the scientific literature under consideration of legal context and principals of sustainability reporting

In some countries, there has been a legal obligation for certain companies to report on sustainability aspects for many years. For instance, large companies in Germany that need to publish annual reports are obliged to report on the development of relevant indicators on environmental and employee issues within the management report since 2006 - insofar as these are relevant for business success. Comparable regulations can also be found in other European Union (“EU”) countries, as the reporting obligation is based on a corresponding EU directive.

In 2014, at EU level, an advanced reporting requirement regarding Corporate Social Responsibility (“CSR”) was adopted in the management report (Directive 2014/95 / EU on disclosure of non-financial and diversity information). EU member states had to adopt the directive into national law by December 6, 2016 (European Parliament, 2014). As an illustrative example, in Germany, the directive was implemented by CSR Directive Implementation Act (German: “CSR-Richtlinie-Umsetzungsgesetz”) through changes in the German Commercial Code (German: “Handelsgesetzbuch”).

The German Corporate Social Responsibility reporting obligation constitutes that as of 2018, capital market-oriented companies with more than 500 employees must include a non-financial statement in the disclosed management report. However, companies may publish a separate report instead of the non-financial statement in the management report. The non-financial statement must address at least environmental, social and labour issues, respect for human rights and the fight against corruption and bribery. In doing so, the companies have to report their respective concepts (meaning provisions and measures) and describe the developments with key figures. Also, the risks that are associated with Corporate Social Responsibility reporting topics have to be described. This should refer to suitable guidelines, which are however not explicitly named in the law. If the reporting does not refer to appropriate guidelines, this has to be explained. In addition to the non-financial statement, corporate governance disclosures require a description of the diversity concept for the company's management and supervisory bodies.

In a sustainability report, relevant information regarding its sustainability performance in addition to the information in the financial report of an organization should be provided (Global Reporting Initiative, 2006, pp. 2ff). Organizations should present their sustainability strategy, which is commonly based on a specific sustainability concept. In particular, the explanation of interactions and conflicting goals is important between the dimensions of

ecology, economics and social issues. In addition, sustainability reports should outline previous sustainability-related activities as well as an outlook for future sustainability-related challenges.
Sustainability reports should comprise all relevant activities, products and services of the organization so that the readers can get an overall insight of the organization, its purpose and objectives. It is important that the reporting organization is clearly described and that the parts covered in the report are distinguished from the non-covered parts. An example for non-covered parts might comprise locations abroad that do not have sufficient data or certain activities performed by subsidiaries or joint ventures that are not included in the report.
It is important to present information according to its importance in the social, environmental or economic context. Essential in this sense is information when it is important to the organization and when it has special significance in terms of the environment. Furthermore, completeness regarding the core topics is a relevant factor. Since completeness is hardly achievable in view of the many topics related to sustainability, it is important to understand the spectrum of essentials to delineate plausibly and comprehensibly from the less significant topics. When organizations select essential topics, it must be ensured that both ecologically and socially or economically important topics can be found in upstream or downstream production stages. Therefore, the product life cycle should be taken into account. In addition, arguments on individual topics should be understandable for the readers.
The guidelines of the Global Reporting Initiative are internationally recognized and have long been established as de facto standard on sustainability reporting. The current guidelines have been transposed into 36 standards without any substantive changes in comparison to the previously issued GRI G4 guidelines. The GRI Reporting Framework is intended to serve as a generally accepted framework for reporting on an organization's economic, environmental, and social performance (Global Reporting Initiative, 2006, pp. 2ff). It is designed for use by organizations of any size, sector, or location. It takes practical considerations faced by a diverse range of organizations into account – from small enterprises to those with extensive and geographically dispersed operations.
The first GRI guidelines were prepared in the late 1990s with the involvement of stakeholders. They were then further developed on a regular basis, also with extensive involvement of stakeholders. Among other things, the GRI Guidelines require well-defined metrics on the economic, environmental and social aspects of the reporting entity's activities, products and services. In addition, there are so-called sector supplements that contain special requirements for different industries.
In 2013, the fourth generation of the guideline was published with the GRI G4 guidelines. GRI G4 contain some major changes to its predecessor GRI 3.1. Additional sustainability indicators have been added and, in addition, when confirming the application of the guidelines, it is no longer the application levels[*] A, B and C that are differentiated, only the options[†] "core" or "comprehensive". In addition the materiality analysis evolved towards a greater significance. Organizations should clarify the relevance of their sustainability issues

[*] Application levels in GRI 3.1 represented a clear communication about which elements of the GRI Reporting framework have been applied in the preparation of a report. There were three levels applicable. They were titled C, B, and A. The reporting criteria found in each level reflects an increasing application or coverage of the GRI reporting framework.
[†] General Standard Disclosures are to be reported for both options, with a larger number reported for the Comprehensive option. For each identified material aspect, the organization should disclose the at least one indicator when choosing the core option. In contrast, for each identified material aspect, the reporting organization should disclose and all Indicators related to the specific material aspect.

and not report on irrelevant aspects. In addition, the presentation of internal structures and processes for the implementation of sustainability is of greater importance. The transition period, during which GRI G3 could still be used, expired at the end of 2015.

In 2016, the Global Reporting Initiative translated the GRI guidelines into 36 GRI standards. At the time of the transition, G4 guidelines and standards requirements were the same. However, only the standards will be subject to further updates in the future. Since it is unlikely that all standards will be adjusted at the same time, from now on there will no longer be such wide-ranging changes as in previous revisions of the guidelines. The changeover to standards takes account of the factual role of the GRI guidelines.

The GRI emphasizes that the GRI standards are not is a new version, rather, none are new recorded topics and the basic concepts and information of GRI G4 has been adopted (Global Reporting Initiative, 2016). However, there is now a consistent distinction of requirements recommendations and guidance.

Comparable to the structure of International Financial Reporting Standards (“IFRS”), the topic-based GRI standards represent a set of modular, cohesive standards. By changing to an individual standards structure, it is intended to make the GRI content more flexible. One part of this flexibility is that changes can be adopted to individual standards without the requirement to amend the whole framework. Furthermore, the flexibility in the application of the GRI standards for reporting organizations has been increased because organizations that are only affected by specific sustainability issues have the option to report isolated topics individually (results in "GRI-referenced" annotation).

Research methodology

The analysis was conducted on the basis of the metadata of 8,338 sustainability reports of European organizations published in calendar years from 2014 until 2017 to publicly available GRI’s Sustainability Disclosure Database. The data comprises detail information of sustainability reports from 7 different organization types of organizations.

The aim is to show quantitative-descriptive factors relating to the structural development of sustainability reports disclosed by European organizations from 2014 until 2017.

The analysis reveals that almost half (44.2%) of 8,338 analysed European sustainability reportings are disclosed from organizations with group headquarter in five specific European countries. Those are United Kingdom of Great Britain (11.8%), Germany (8.6%), France (8.2%), Spain (8.2%) and Sweden (7.3%).

By analysing sectors of reporting organizations in the population it can be observed that “Financial Services” is the sector with the most filed European sustainability reportings in the GRI’s Sustainability Disclosure Database, representing 13.5% of the population. Other frequent sectors are “Energy” and “Energy Utilities” (9.8%), “Food and Beverage Products” (6.7%) and “Construction” (3.5%). As “Financial Services” comprises various types of financial institutions, for instance banks, insurance companies or brokerage firms it is not surprising that this sector type is most frequently included in the population. Thus, the frequent occurrence is mainly caused by the underlying definition of sectors and not by the general observation that financial institutions are the most engaged reporting organizations. However, the analysis reveals that the population is characterized by a highly dispersed sector structure.

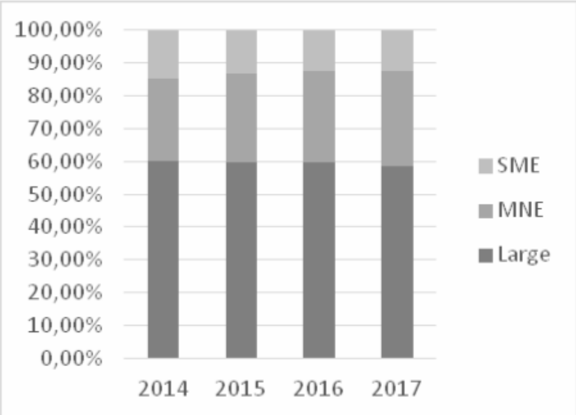

Fig. no.1: Organization Size of Reporting Organizations by Year

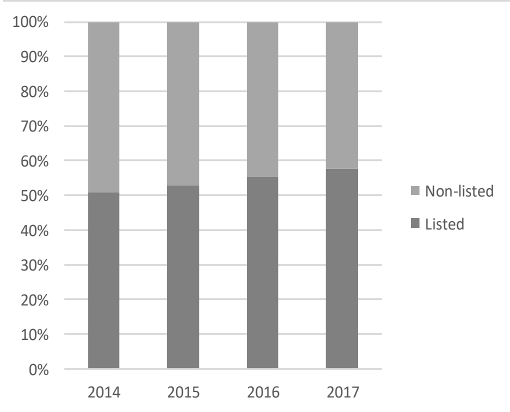

Fig. no.2: Status of Stock Exchange Listing by Year

The analysis of the organization size of reporting organizations (fig. no.1) reveals that majority of organizations of the analysed population are large organizations (2017: 58.2%) and multi-national enterprises ("MNE" 2017: 29.2%). Large organizations are represented by entities exceeding the size criteria of 250 employees, EUR 50 million revenues or total assets on the balance sheet of EUR 43 million. In case that a large company operates in a multi-national environment the company is classified as multi-national enterprise.

Small and medium-sized entities ("SMEs") are represented by 12.6% of the population. The organization size is classified as SMEs based on the local regulations. In case that there is no applicable local regulation regarding the SMEs, the SME definition of the EU was used. This is represented by entities not exceeding the size criteria of 250 employees, EUR 50 million revenues or total assets on the balance sheet of EUR 43 million.

In total 87.4% of reporting organizations in the analysed population are large organizations with or without multi-national business operating context. The individual share per organization size remains on a comparable relation in the course of time.

Regarding the listing status of analysed organizations (fig. no.2), we observed that share of listed enterprises increased from 50.9% in 2014 to 57.8% in 2017.[‡] In the context of increasing regulation by adoption of the EU directives on Corporate Social Responsibility reporting for listed enterprises into national laws this is a reasonable development. It can be assumed that increased binding legal obligations for listed enterprises to report about sustainability matters might lead to an increased share of listed enterprises in the population in comparison to non-listed enterprises where no or limited obligation regarding sustainability reporting is given.

[‡] Organizations are classified as whether they are listed on a stock exchange or not listed.

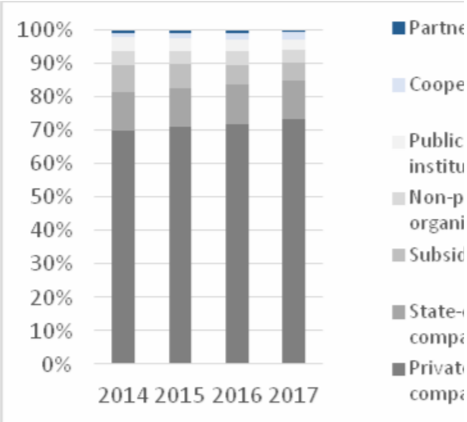

Fig. no.3: Organization types of Reporting Organizations[§]

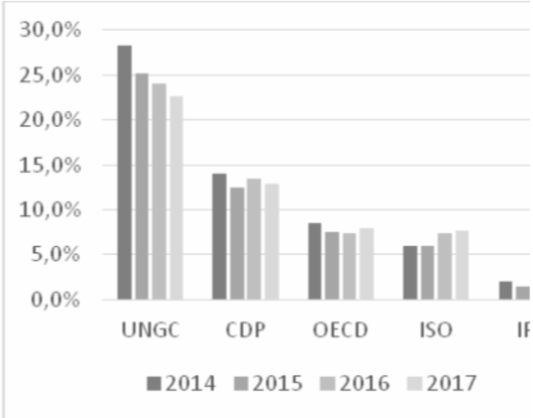

Fig. no.4: Reference to principal-based sustainability policies[**]

The development of organization types of reporting organizations (fig. no.3) reveals no significant structural change over the examined period. Private companies represent the largest share of all organization types within the population. While the share of private companies slightly increased from 70.1% in 2014 to 73.4% in 2017 the share of subsidiaries slightly decreased from 8.1% in 2014 to 5.5% in 2017. However, due to the similar nature between both organization types that is mainly distinguished by the fact that subsidiaries are private companies controlled by another company through the ownership of 50% or more of the voting stock, there is no evidence for a structural change within the population.
With regards to the references within sustainability reports to specific principal-based sustainability policies (fig. no.4) it can be concluded that the United Nations Global Compact ("UNGC") is by far the most relevant policy framework that is referred to. In 22.6% of analyzed sustainability reports in 2017 there is a reference to the UNGC. References to the Carbon Disclosure Project ("CDP") policies are included in 12.9% of analyzed sustainability reports in 2017. Other sustainability policy frameworks like ISO 26000 and International finance corporation ("IFC") performance standards or supplementary elements of sustainability reporting like the OECD Guidelines for Multinational Enterprises are referenced in less than 10% of the analyzed sustainability reports.

[§] Private Company is a business organization owned either by a non-governmental organization or by a number of stakeholders. State-Owned Company is a legal entity created by a government in order to undertake commercial activities on behalf of the owner government. Cooperative is an organization jointly owned and democratically controlled by the employees and/ or end-users of the good/ services produced to meet their common needs. Subsidiary is a company controlled by another company through the ownership of 50% or more of the voting stock. Public Institution is an administrative unit of government, including the municipal authority of a city. Non-Profit Organization is an Organization ran to further an ideal or goal, rather than in the interests of profit; e.g., foundations. Partnership is a formation of businesses and/ or individuals to advance their business interests.

[**] "UNGC" indicates explicit reference to/ use of the United Nations Global Compact and its principles in the report, "CDP" indicates explicit reference to the organization responding to one of the annual Carbon Disclosure Project ("CDP") questionnaires, or participating in an associated CDP project, "OECD" indicates explicit reference to/ use of the OECD Guidelines for Multinational Enterprises in the report, "ISO" indicates explicit reference to/ use of the ISO 26000 clauses in the report and "IFC" indicates explicit reference to/ use of the IFC Performance Standards in the report.

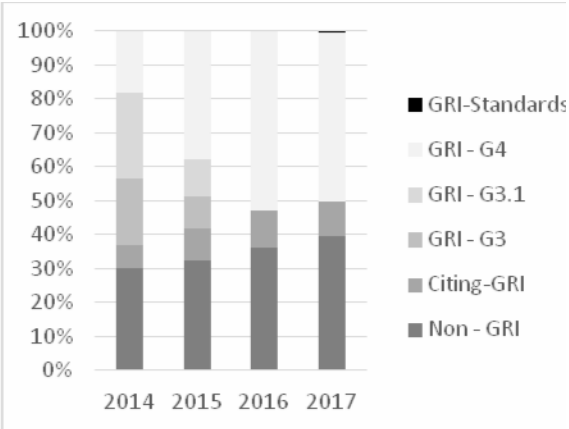

Fig. no.5: Percentage of applied Reporting Framework by year

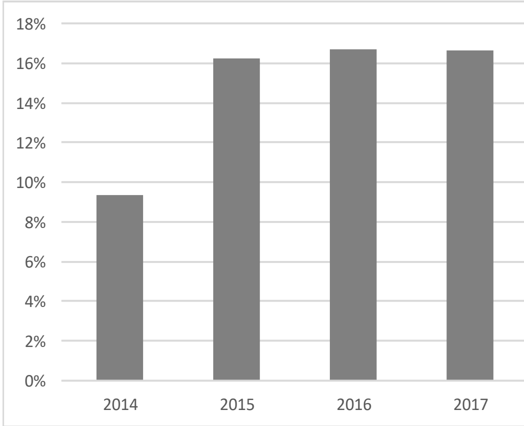

Fig. no.6: Percentage of Reports that are integrated in Financial Reporting by year

By analysing the applied reporting frameworks in the course of time (fig. no.5), the development of relevant applicable GRI frameworks can be revealed. The applied reporting frameworks indicate the version of the GRI guidelines applied in the reportings submitted to GRI's Sustainability Disclosure Database.[††] The year indicates the calendar year in which the reporting was published and not the year or period the report covers (exceptions may apply for integrated sustainability reports issued for organizations with financial reporting year ending on a date other than calendar year end December, 31; e.g. interim reporting).
Non–GRI category represents sustainability reports that do not have a reference to being based on the GRI Guidelines or GRI–Standards. Instead no or other reporting framework(s) were used by the reporting organizations. The share of this category increased from 30.0% in 2014 to 39.4% in 2017. A potential explanation for this increase can be seen in evolving national initiatives for adopting country-specific sustainability reporting frameworks which represent a conceptual competition to the GRI reporting frameworks and standards.
Citing–GRI indicates sustainability reports that make explicit reference to being based on the GRI Guidelines (G3, G3.1 or G4) but for which there is no specific GRI Content Index available. An overview of reported sustainability information provided through a GRI Content Index can help a reporting organization to be transparent and accountable by providing reporting organizations with a method for disclosing sustainability information by referencing and/or directly linking to different communication vehicles and referencing existing information. The share of this category increased from 7.0% to 10.3% but remains on a lower total share.
Over time GRI–G3 and GRI–G3.1 reporting frameworks decreased in relevance from an aggregated share of 44.9% in 2014 to 0.0% in 2016. On the other hand GRI–G4 reporting framework increased in relevance from a share of 18.2% to 52.7% during the same period of time. This development is in line with the expectation that reporting organizations tend to consider changes in the reporting frameworks in the most current version available in case that this version is already mandatory applicable.
It´s worth noting that the latest GRI–Standards have virtually no material share in the analysed continuum of adopted sustainability reporting frameworks. The share is 0.3% in 2017 and thus immaterial. This is an indication, that reporting organizations tend to apply current reporting frameworks but they seem to avoid an early adoption of new frameworks

[††] GRI– G3 (published in 2006), GRI – G3.1 (published in 2011), GRI – G4 (published in 2013): valid until 30 June 2018 and GRI – Standards (published in 2016): currently valid.

when the application is not mandatory. This can also be an indication that an early adoption of new or amended GRI–Standards before the mandatory transition dates might be unlikely for the majority of reporting organizations.
The analysis of reports that are integrated in financial reporting by year (fig. no.6) indicates whether or not the report includes both non-financial and financial disclosures, beyond basic economic information. In 2015 the share of an integrating reporting increased to 17.0% and remains comparable stable at this threshold until 2017. This is an indication that organizations prefer to present the sustainability reporting in a separate report instead of an additional component within the regular financial reporting. A possible explanation can be considerations of reporting organizations regarding the extent of the reporting. By adopting a comprehensive GRI reporting framework there is a notable large scope of required information to be presented. An integrated reporting also comprise a significant amount of financial information so that the additional non-financial sustainability information might lead to confusion for the addressee of the reporting. This might result in a situation were the basic principle of information relevance and clarity no longer exist.

Results and discussion

Sustainability reporting obligations especially for large organizations with a listing on a stock exchange increased significantly during the period from 2014 to 2017 mainly due to the Corporate Social Responsibility Directive 2014/95 / EU on disclosure of non-financial and diversity information that had to be transformed in nation law by members of the European Union. This development indicated a structural change towards a higher share of sustainability reporting from large enterprises in comparison to the total population of sustainability reports.
Our analyses based on the metadata of sustainability reportings from European organizations included in the GRI's Sustainability Disclosure Database reveals that there is no material structural change regarding a higher share of sustainability reporting from large enterprises in comparison to the total population of sustainability reports. However, the organization size of reporting organizations is dominated by large companies and multinational enterprises operating in the organization type of private companies. Furthermore, the majority of the reporting organizations is listed on a stock exchange. The analyses reveal that there is no significant structural change in organization size, type and status of a stock exchange listing during the observed period from 2014 to 2017. Also the sustainability policy framework to which the observed reporting refer to didn´t change significantly. The United Nations Global Compact remained the most relevant framework to which the reporting organizations refer to.
In contrast there is a development regarding the applied reporting frameworks in the course of time. GRI–G3 and GRI–G3.1 decrease from a share of 44.9% in 2014 to 0.0% in 2016 while GRI–G4 increased in relevance from a share of 18.2% to 52.7% during the same period of time. An early adoption of the latest GRI–Standards was only carried out in an immaterial number to reportings. It is to be expected that the application GRI–Standards will significantly increase as soon as the application of GRI–G4 is not valid any longer, which is for reporting periods after June 30, 2018.
Regarding whether the sustainability reporting is carried out in a separate sustainability report or as part of an integrated financial reporting it can be observed that most reporting organizations prepare a separate sustainability report throughout the observation period. We assume that especially the principles of information relevance and clarity are the main cause for this decision of porting organizations management.
However, our results are subject to limitations. For the period from 2014 to 2017 we analysed the development of sustainability reports for specific institutional factors of reporting organizations and specific reporting characteristics and our analysis has identified

the key institutional factors of reporting organizations which proved to be constant over the observation period except for the applied reporting framework, but we have not analysed the interesting topic of evaluating the interdependencies between the institutional factors.
There are different possible approaches to develop this work. We could, for example, focus further analyses to the reporting universe of non-listed companies that, particularly in Europe, dominate the business environment. We could also explore not only reportings disclosed in the GRI's Sustainability Disclosure Database but also reportings disclosed directly by reporting organizations. It might be also interesting to extend our study to other countries and to repeat it in the following years to gain further insights into the process of upcoming development over time.

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