
THE EFFECT OF CHANGES IN SUSTAINABILITY REPORTING RULES ON THE CLARITY OF THE CSR REPORTS

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Abstract

The objective of this research is to determine to what extent the sustainability reporting is in line with Clarity principle included in the GRI guidelines. In order to achieve this goal we analysed the quantitative indicators proposed by Global Reporting Initiative guidelines (as a tool of non-financial performance) published by a number of 14 environmentally-sensitive organisations included in the Pilot Programme of the International Integrated Reporting Council in three moments of time (2010, 2013 and 2016). We have determined an annual score of information clarity for each organization. The results of the research show that after switching to integrated reporting in 2013 the score of information clarity was improved for 64% of the companies. Nine of the organizations have a degree of information clarity for the reports published in 2013 and 2016 higher than for those published in 2010. For four organizations (29%) the score of information clarity remained the same for all the three periods under investigation. The impact of our research is that we show how companies can improve their sustainability reporting.

Keywords

Environment; indicators; GRI; performance; clarity.

JEL Classification

Q56

Introduction

At present the sustainability reporting is goal for most of the companies, given that there are a lot of benefits: competitive advantages (Lozano & Huisingh, 2011), better reputation (Michelon, 2011; Ernst & Young, 2017), meeting the expectations of employees (Ernst & Young, 2013) or waste reduction (Michelon, 2011). Even if the sustainability reporting is optional in most of the world's countries, the number of companies reporting non-financial information related to the environment has significantly increased in the last years. While 25% of the companies disclosed information on social, environmental and economic issues in 2007 (Fortanier & Kolk, 2007), the percentage of companies disclosing information on social responsibility was closed to 75% in 2015 (KPMG, 2015). Other studies (Verschoor, 2011; Ernst & Young, 2017) stress that the volume of non-financial information published by organizations has increased much in recent years, but mainly as voluntary disclosures. The continuous changes and the lack of mandatory requirements can hamper the clarity. As the most used guidelines in the area are the ones issued by GRI, the objective of our

research is to analyse the Clarity of quantitative GRI indicators published by a number of 14 organizations in environmentally-sensitive industries, which were included in the Pilot Program of IIRC (2010) in the context of the changes in the sustainability reporting. We chose this category of firms because, according to (Barbu et. al., 2014) ‘environmentally sensitive firms are likely to report more environmental information than those firms that are less environmentally sensitive’. In order to achieve this goal we have determined an annual score of information clarity for each organization.

1. Literature review

Establishing the Global Reporting Initiative (GRI) in 1997 was a first important step in setting up a framework of voluntary reporting appropriate for all types of companies with focus on the economic, social and environmental dimensions related to their specific activities. This body developed in 2000 the first global framework for comprehensive sustainability reporting (GRI, 2017). Further, GRI published several versions of specific Guidelines. The existing versions have been the following in time: G1 (2000), G2 (2002), G3 (2006), G3.1 (2011), G4 (2013), Sustainability Reporting Standards (SRS) (2016).

GRI defines the following principles for defining report quality: accuracy, balance, clarity, comparability, reliability and timeliness. Given that in this research we are only analysing the GRI indicators presented by the organizations that have joined the pilot program of the IIRC (IIRC, 2011), of the six principles we will only consider Clarity. According to GRI Sustainability Reporting Standards 2016 (GRI, 2016, p. 13-16) this principle is thus defined: ‘The reporting organization shall make information available in a manner that is understandable and accessible to stakeholders using that information’.

Regarding the clarity of information there is a gap in specific literature. There are studies that deal with the transparency of information (Ștefănescu & Tănase, 2016) or readability (Du Toit, 2017). However, clarity means more than transparency and readability. One way of achieving the clarity nowadays is through the use of the information technologies, for instance for preparing online reports.

2. Research Method

The collection of information took place during the period of time 1 January 2017- 30 July 2017. We started with 99 international organizations that were included in the IIRC Pilot Programme. The organizations were classified in respect of industries (IIRC, 2011; 2013). For the selection of the environmentally-sensitive industries, we used the classification established by Barbu et. al. (2014). As the environmental disclosures are industry-specific (Freedman & Jaggi, 2005; Eccles, 2012) the results of the research shall be presented taking into consideration the features displayed by the analysed firms, considering the industry they belong to. As a consequence of applying the selection criteria, 17 companies remained in the following industries: Basic Materials (Chemicals-3, Industrial mining & metals-2), Industries (Steel producers -1, Transportation services- 4), Oil & Gas (Oil- 5). Tata Steel and Gold Fields were removed from the sample because on the date of the data collecting they did not have the annual reports for the year 2016 published. Also, for Cliffs Natural Resources, the non-financial information of the year 2016 was not available at the date of finishing the data collection process. This led to its elimination from the research sample. Thus, we analysed the information disclosed by 14 organizations.

For the chosen organizations the reports published for three years (2010, 2013, 2016) were examined. 66 reports published in the three investigated years were analysed in total for 14 organizations in nine countries. The distribution on industries was the following: 22 reports were published by the five organizations included in BM, 18 reports were published by the four organizations include in I, while 26 reports were published by the five organizations in O&G.

Considering the fact that an investor analyses the non-financial information in correlation with the financial ones, to determine the clarity score, we searched for financial as well as non-financial information (Ernst & Young, 2014; 2017). Due to the fact that the non-financial information is very heterogeneous (Fortanier and Kolk, 2007; Albu et al., 2013; Dumitru et al., 2015; Calu et al., 2016), to select the indicators whose evolution we examine (table no. 1) we started with the GRI references (versions G3.0, G3.1, G4 and SRS) applied by the organizations during the three years of the reporting.

The objective of this research is to determine an annual score of information clarity for the reviewed organizations in each of the three periods under examination. To achieve this clarity score we took into account the following five aspects (A):

- **A1:** Number of reports where to look for the financial and non-financial information: 1 point if all information is within one report, 2 points for collecting information from two reports, a.s.o.;
- **A2:** On-line availability of the integrated report, in a form where there is a high connection of information (there are links for details through which there is made the information direct correlation): 1 point for the on-line form, 2 points for lack of on-line presentation;
- **A3:** Pointing out the version of the GRI references according to which the reporting is made: 1 point if the version is mentioned, 2 points if it is not mentioned;
- **A4:** Existence of a GRI grid to present the indicators: 1 point if the GRI grid is published, 2 points if it is not published;
- **A5:** Use of symbols and names for the reported indicators: 1 point for the use of symbols in correlation with the names of the indicators, 2 points if symbols are not used.

The best annual information clarity score that could be obtained by an organization is 5. The worst clarity score is 10. Based on the score obtained we established a ranking regarding the clarity of the information at the organization's level. The first place was granted to the year in which the lowest score was registered.

3. Results

We noticed the fact that the published non-financial information was different both in terms of disclosure and manner of determining the values of the investigated indicators. This aspect is in line with previous researches (Fortanier and Kolk, 2007; Albu et al., 2013; Dumitru et al., 2015; Calu et al., 2015). The heterogeneousness of the collected information in respect of the environment performance did not allow comparisons between the organizations for the information expressed in values or percentages mainly for the following reasons:

- The same indicator can be determined and presented differently according to the organization type;
- For the same reporting year the organizations could use different guidelines.

For the Basic Materials industry, in respect of the reference used for the financial reporting, we notice that there is uniformity: all organizations apply IFRS. In terms of non-financial reporting, for the analysed organizations we observe that there is a high uniformity in respect of the used guidelines. For the year 2010, we find that two of the organizations (ANNV and SLV), though they refer to GRI and report information for the GRI databasis (GRI, 2016), there is not mentioned the use of any GRI version, only citing GRI. This led to a lower degree of clarity of information (table no. 1). The other three organizations (AGAL, BASF and TKR) used the G3 version. In 2013 there were also used different versions of the GRI references, such as: G3 and G3.1 versions by TKR, respectively ANNV, and the G4 version by the rest of the organizations. In the last reviewed year, three of the organizations

used the G4 version (ANNV, BASF and AGA), and two used the new SRS (SLV and TKR) for reporting.

The following four organizations belong to the Industrials (Transport): ATL, CCR, FMG and NVLS. All the analysed organizations applied IFRS for the financial reporting. In terms of the non-financial reporting guidelines, the following versions were used: G3, G3.1, G4 and SRS. A specific aspect of the investigated organizations within this industry is given by the fact that for each examined year all the four organizations used different versions of GRI reporting, such as: in 2010 ATL did not use the GRI reference, and the other three organizations used the G3 version, in 2013 all four organizations used the G3.1 version, and in 2016 FMG used SRS, the other three organizations using the G4 version. There can be noticed the fact that at the level of this industry all four organizations report every year in accordance with another version.

Within Oil & Gas there were examined the following five organizations: ENI, PBS, RPS, RST, and SNAM. All the analysed organizations applied IFRS for the financial reporting. In respect of the non-financial reporting guidelines, within this industry there were used the fewest versions: G3, G3.1 and G4. Three (PBS, RST and SNAM) out of the five organizations used the same version (G4) for two of the three reporting periods under investigation. At year level the situation is the following: in 2010 all organizations used the G3 version, in 2013 two organizations (ENI and RPS) used the G3.1 version, the other organizations using the G4 version, and in 2016 all of them used the G4 version. There can be noticed the fact that at the level of this industry there is the highest uniformity in terms of using the same version of guideline in the same year.

The review of the results is performed in accordance with the research scope: to determine an annual score of information clarity for each organization.

At the level of the 14 investigated organizations, the values obtained regarding the score of clarity are between 6 and 9, with a mean of the clarity score of 7.17. None of the organizations registered an extreme score (of 5 or 10). In respect of the scores obtained per each year, the range was the following: the highest clarity of information was registered in 2016 (with a mean of 6.79), at close distance from the year 2013 (with a mean of 6.93). On the last place in terms of clarity there was the year 2010 at a distance of one point away from the year 2016, with a mean of information clarity of 7.79. This aspect indicates the fact that bringing forward the integrated reporting, the clarity of information rose. The classification per years, according to the rank taken by the organizations in the view of the information clarity is displayed in fig. no.1.

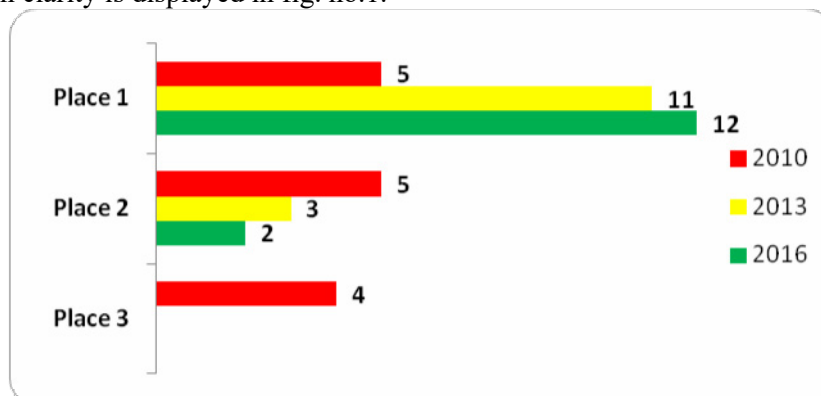


Fig. no. 1 Clarity ranks
Source: compilation of the authors

For a number of five organizations, the information clarity was not modified during the three years under investigation, which is why each of the three years was granted the first place. Although, the scores obtained by these organizations were high: in the case of three organizations (CCR, ENI and PBS) the score of clarity was 7, and in the case of two organizations (TKR and RST) the score of clarity was 8. We observe that for nine organizations (64%) out of the 14 investigated organizations there was obtained an increase of the information clarity index in comparison with the year 2010. In respect of the industry they belong to, the distribution is the following: four organizations are within the Basics Materials industry, two belong to Industrials and two to Oil & Gas. In addition, for a number of four organizations out of the nine (ANNV, SNAM, ATL and NVLS) the score of clarity remained constant in 2013, respectively 2016. It is interesting the fact that out of the nine organizations, four organizations (ANNV, BASF, NVLS and RPS) turned to the online integrated reporting beginning with 2013, other two organizations displaying online integrated reports starting with 2016 (SLV and AGA).

For four organizations (29%) the inclusion in the IIRC programme in 2013 did not influence in any way the information clarity, the score of clarity being equal during the three years. It is interesting the fact that only one of these five organizations (ENI from Italy) started in 2013 the online integrated reporting of information, but once the online integrated reporting was adopted (method facilitating the more rapid finding of information), that organization gave up on using symbols for presenting the indicators into the report. This aspect led to maintaining a constant clarity score. A specific feature is that the organizations CCR and PBS from Brasil disclose an identical clarity score for both organizations during the three years, for each of the five criteria taken into account. Although they belong to different industries, we notice the preference for the standardized and clear disclosure of information in the case of both organizations, in each of the three years. They use signs for the indicators described in the text, mentioning the version of the used GRI guidelines, as well as the use of the GRI indicator. The preference for the standardized presentation during the three years could be considered a cultural influence. According to Rosneft (2010) there are six cultural dimensions, one of them being Uncertainty Avoidance which 'expresses the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity.' For this cultural dimension Brasil has a very high score (76), score considered characteristic to the societies that 'show a strong need for rules and elaborate legal systems in order to structure life [...] bureaucracy, laws and rules are very important to make the world a safer place to live in'. RST from the Russian Federation shows a constant clarity score in time. In this case the GRI version is mentioned and the GRI indicators are presented. Similarly to the case of Brasil, Rusia has a very high score (91) of Uncertainty Avoidance (Hofstede, 2004). The organization does not disclose online integrated reports in any of the three years and it does not use a standardized indicator presentation, correlated to the symbols of the GRI reference, though it displays information on them. It is remarkable that within the reports of RST there is mentioned the fact that certain data are secret. For example, in the annual report of the year 2010 (Rosneft, 2010, p. 156) there is pointed out the fact that 'the Company provides timely and full disclosure of information on all aspects of its business (except for instances where the information represents a commercial secret or other legally protected information)', and in the one from 2016 there is emphasized the fact that the disclosure of some information is in 'compliance with state secret' (Rosneft, 2016, p. 31). The findings are convergent with those presented by Calu (2015). TKR from Canada has remained constant in respect of the degree of information clarity, regardless of the changes within the manner of reporting. Although it has a high score of clarity (8), on a scale from 5 to 10, this value does not indicate a lack of transparency of information, quite the contrary. In terms of cultural influences, according to Hofstede (2004) Canada has a score of 39 in respect of the cultural dimension called the Power Distance, which indicates an accentuated

trend of information disclosure: 'with respect to communication, Canadians value a straightforward exchange of information.' This aspect led to a separate disclosure of information every year within two reports and, therefore, to the increase of information clarity score. Another fact leading to the increase of information clarity score was the absence of a standard disclosure of information on indicators during the three years, guided by signs and names of indicators, aspect which could be explained by the score of 48 regarding the Uncertainty Avoidance indicating the existence of the 'freedom of expression', as well as the fact that the 'Canadian culture is not rules-oriented' (Hofstede, 2004). Moreover, in terms of another cultural dimension, Long Term Orientation, Canada has the score of 36, indicating that it is a norm society which 'prefers to maintain time-honoured traditions and norms while viewing societal change with suspicion' (Hofstede, 2004). These aspects explain the existence of a homogeneous information clarity for TKR, even if the professional references and type of reporting have changed through time.

A particular case is FMG from Germany for which the lowest score of clarity during the three investigated years was in 2016. This is generated by the fact that, unlike the previous year when the information was displayed into a single report, in 2016 the organization divided the disclosure of the financial and non-financial information in two reports: Financial Report and Sustainable Development.

Conclusions

The objective of our research was to analyse the Clarity in the context of the changes in the sustainability reporting. We selected the integrated reports published by a number of 14 organizations in environmentally-sensitive industries, which were included in the Pilot Program of IIRC (2010). In order to achieve this goal we determined an annual score of information clarity for each organization. In line with previous research (Freedman & Jaggi, 2005; Eccles et al., 2012), we analysed the data on industries.

In terms of analysing the score of information clarity, there was observed that for most of the organizations (64%), the degree of information clarity increased after the inclusion in 2013 in the IIRC pilot. Nine of the organizations have a degree of information clarity for the reports published in 2013 and 2016 higher than for those published in 2010. For four organizations (29%) the score of information clarity remained the same for all the three periods under investigation. In respect of the online integrated reporting, three organizations (ANNV, BASF and NVLS) presented online integrated reports both for 2013 and 2016, and two organizations (SLV and AGA) presented online integrated reports for 2016. Moreover, all three organizations belonging to the BM/Chemistry industry had online integrated reporting in 2016. On the other hand, none of the organizations within the O&G industry disclose online integrated reports. The results of this research are complementary with those achieved by Calu (2015) which, after analysing the reports published in 2013 by 16 organizations belonging to the industries Oil & Gas, Utilities, and Technology that adopted the IIRC programme, observed that only SAP (from the industry Technology) disclosed information within an online integrated report for the reporting related to the year 2013. Also, there were observed the following aspects that made the information clarity worse. The signs used for indicators have changed in time. There are situations when the same symbol is used to disclose totally different information in case of using different versions of the reporting guidelines. For example, for the sign EN5 the following names have been associated: Total water use (G2), Energy saved due to conservation and efficiency improvements (G3.0/3.1), respectively Reduction of energy consumption (G4). Also, there are situations when, for a similar name and content of an indicator, the signs are different, according to the version of the references under investigation. An example in this respect is the indicator Direct greenhouse gas (GHG) emissions (Scope 1), represented within

references under the following symbols: EN16 (G3.0/3.1), EN15 (G4), respectively 305-1 (SRS).

The symbol of the indicator has remained the same within various versions of the guidelines, and the content of the disclosed information through the agency of the indicator is completely different. Such an example is the indicator EN2, whose name has been changed as: Percentage of materials used that are wastes (processed or unprocessed) from sources external to the reporting organization (G2), Percentage of materials used that are recycled input materials (G3.0/3.1, G4). In this case there could be seen that the focus turned from disclosing a negative aspect (wastes) to presenting a positive aspect (recycled) in terms of the materials used through the production process.

The symbol of the indicator has remained the same within various versions of the references (G2, G3.0/G3.1, G4) in the case of most of the indicators, and in respect of the name, there have been insignificant variations.

For the organizations SV, AGA and RPS the degree of information clarity was worse in 2013 and 2016. The score was lower in these two years as compared with the previous period analysed.

In line with previous research (Gonzalbez & Rodriguez, 2012; Steele, 2016), we consider that one way to improve the clarity of the reports is the use of the information technologies (for instance, the disclosure of the online integrated reports).

A limit of our research is the small number of companies selected. Yet, we searched for the information in many reports (66). Also, as the number of companies included in the Pilot Program was less than 100, we considered that we analysed a fair number of companies.

Our study can have an impact in practice. The representatives of the organizations can see how the compliance with the guidelines is assessed (in our case, the compliance with the clarity principle) and can improve their reporting process. A better reporting can have a positive effect on the organization's reputation, profit and customer loyalty (James, 2015). Also, eventually, it should be in the benefit of the society.

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