

ASSESSMENT OF THE ENVIRONMENTAL REPORTING PRACTICES OF THE COMPANIES INDEXED IN THE GRI DATABASE

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Abstract

Triple Bottom Line Reporting (TBL) is the initial framework for companies to consider non-financial reporting. The objective of this study is to investigate the quantity and quality of voluntary environmental information presentations in the sustainability reports of companies in Europe and Romania indexed on the official website of the Global Reporting Initiative (GRI). Therefore, to achieve this objective, the companies indexed on the official GRI website were analyzed. The research method used is based on granting scores for the level of compliance of the reports with a scoring grid developed based on the literature review. The case study revealed three types of isomorphism mechanisms: coercive, normative and mimetic, intending to develop sustainability reports. The study shows the potential of companies in Romania and companies in Europe indexed on the GRI website to have a high degree of compliance from a quantitative and qualitative point of view concerning the environmental reporting and to obtain performance by complying and aligning with the principles of the TBL conceptual framework and GRI.

Keywords

environmental reporting; sustainability reports; TBL; isomorphism; GRI

JEL Classification

M14

Introduction

In the last decade, the term TBL was used as a paradigm to assess the success of an organization. It is defined as a sustainability balance for three different aspects: environmental, social and economic as "the three legs of sustainability" (Newport et al., 2003). The TBL reporting is gradually gaining importance worldwide, being the result of economic factors based on the company's performance. A more practical definition of

sustainability principles focuses on the TBL concept in which organizations consider simultaneously their economic, social and environmental sustainability performance (Elkington, 2001). Thus, environmental reporting plays an important role in business costs and in the perception of stakeholders on the business. The aim of this study is to show whether the entities in Romania, as well as the analyzed companies in Europe, are geared to publish sustainability reports, in accordance with the TBL framework. The paper is structured as follows: in the second section, specialized literature is reviewed and further, the research methodology is presented. The fourth section analyzes quantitatively and qualitatively the communication of information on the natural environment, followed by a section of results and discussions. The last section contains the conclusions and limitations of this study, as well as future research directions.

Literature review

The world economy is constantly changing, as companies face global competition, technological innovations and increased regulations in response to financial and governance crises. The accountancy profession has challenged the traditional financial business reporting model, arguing that it does not adequately meet the information needs of stakeholders for assessing the past and future performance of a company (Flower, 2015). As a response to these concerns, corporate reporting is changing and voluntary reporting is increasing in order to provide more useful and transparent information. Social and environmental reporting (SEAR) has been a relevant topic in the academic literature (Gray et al., 1996). TBL is a reporting concept that describes the social, environmental and economic performance of companies derived from the Brundtland Report (Sridhar, 2012). TBL incorporates three dimensions of performance: social, environmental and financial. This differs from traditional (financial) reporting frameworks, therefore, include social and environmental reporting. Environmental reporting is one of the key parts of TBL reporting. Under this approach, known as TBL Reporting, the Global Reporting Initiative's (GRI) sustainability there have been developed reporting guidelines on global reporting initiative in order to assist "reporting organizations and their stakeholders in articulating and understanding the organization's contributions to sustainable development".

The institutional theory implies that organizations adopt management practices that are considered legitimate by others, irrespective of their real usefulness (Carpenter and Feroz, 2001) and explain accounting choices, the process of change or the interaction between practices (Dillard et al., 2004). Reporting practices can be disseminated to organizations by means of three mechanisms: coercive isomorphism, normative isomorphism, and mimetic isomorphism (DiMaggio and Powell, 1983). DiMaggio and Powell (1983), Jennings and Zandbergen, (1995), Milstein et al. (2002), Delmas and Peng (2002) define "coercive isomorphism" as a result of pressures imposed by the government, capital markets or society. "Normative isomorphism" is defined by DiMaggio and Powell (1983) and represents the pressures exerted by the profession and unregulated organizations. "Mimetic isomorphism" is the company's tendency to imitate best practices and helps entities gain legitimacy. The sustainability reports provide an overview of the organization in terms of its social activities and provide a supplement to the financial statements, giving information about a particular set of activities of the organization (Akisik and Gal, 2011). Sustainability reports reflect all ESG dimensions of sustainable performance, and their reliability, objectivity and credibility are affirmed by ISO certifications and the GRI Reporting Framework. Thus, the sustainability reports are focused on performance management within the organization and on the relationships with stakeholders (Thiel, 2020). ISO certifications defining the credibility of sustainability reports are the international standard. According to Ionaşcu and Ionaşcu, (2019), ISO 26000 is an "integrated thinking" in reporting corporate social responsibility. Therefore, the ISO 14000 Environmental Standard and ISO 26000 on

the disclosure of non-financial information, provide the reports with an external assurance on the credibility and legitimacy of the processes of efficient management and communication of the sustainable performance to all stakeholders. The purpose of this study is to investigate the quantity and quality of voluntary environmental disclosures in corporate sustainability reports in Europe and Romania, indexed on the official website of the Global Reporting Initiative (GRI). In Romania, the communication of non-financial aspects was voluntary until the appearance of Directive 2014/95 / EU, with applicability from January 1, 2017, and adopted by OMFP 1938/2016, that introduced the "Non-financial statement" in the annual reports. The reporting of non-financial information in Romania is characterized by a growing global influence, and the practices of non-financial reporting are closely linked to corporate sustainability. A research of KPMG (2017) showed that 74 companies out of N100 companies in Romania publish information on sustainable development. The current study shows the potential of companies in Romania and companies in Europe indexed on the GRI website to have a high degree of compliance from a quantitative and qualitative point of view regarding environmental reporting and to achieve performance by complying and aligning with the principles of the TBL and GRI conceptual framework. This research contributes to a better understanding of the practices of non-financial information reporting in terms of compliance with the TBL and GRI framework.

Research Methodology

The analyzed companies represent an initial sample of 11 companies (see Appendix no. 1) indexed in the database of the GRI Sustainability Reporting Standards (GRI Standards) and taking into account the information available on the websites of these entities. The selection process is based on five criteria: the companies must fall within the category of large companies; the companies must be part of the Europe region, countries: Romania, France and the United Kingdom of Great Britain; the companies must publish information in accordance with GRI 4 standards indicators; the companies must have sustainability reports for at least one year, respectively 2018; the financial and non-financial information of the companies must be public for the stakeholders. The purpose of this study is to analyze the degree of quantitative and qualitative compliance of the Romanian entities and of the other entities. In order to achieve this objective, we formulated the following hypotheses: **H1**: *The companies indexed in the GRI database comply with the TBL reporting framework and the GRI 4 standards*; **H2**: *The analyzed companies achieve performance due to the use of the TBL reporting framework and the GRI 4 standards*; **H3**: *The companies present environmental information as a result of a behaviour caused by an institutional isomorphism*. The analyzed reference year is 2018. After the analysis, a total of 9 sustainability reports resulted. The sustainability report information was initially analyzed using the dichotomous variable (Yes = 1; No = 0). Thus, the purpose is to ascertain whether environmental information is presented and to show how they are presented and to what extent. Therefore, we can see that in Table no. 1, only 4 companies out of 9 present the list of environmental indicators. As a result of the analysis, only two companies were eliminated, the companies TechnipFMC and Tullow Oil, as they did not present any sustainability report for the year 2018. Moreover, in order to achieve a high quality, relevant, useful, consistent and comparable analysis, we have also used the "Guidance on reporting non-financial information" developed by the European Commission (2017), which shows that the purpose of entities is to publish non-financial (ecological, and corporate governance aspects) and the Regulation of the National Securities Commission (CNVM) no. 1/2006. The sustainability reports of the companies analyzed were taken from the GRI website as well as from these companies' websites, and in order to show the "compliance with the sustainable reports on the TBL framework and the GRI 4 standards, we adapted the

methodology used in the study of Dalvadi and Gandhi (2012), in which it is analyzed the quantity of disclosure and the quality disclosure, on the basis of scores.

Quantitative and qualitative analysis of the communication of information on the natural environment

To determine the uptake and compliance with the requirements of GRI 4 standards, we analyzed the sustainability reports of the selected companies, published on the official website of the GRI database, as well as on their website for one year: 2018. The compliance of the sustainability reports of the analyzed companies was measured for size (natural environment) using scores from 1 to 5 on the quantity of information communication of the natural environment and from 1 to 7 on the quality of information communication of the natural environment, of which several diagrams result. In order to make the charts, we calculated the scores in relative values.

Chart no. 1 (see Appendix no. 2) shows the degree of compliance of the sustainability reports with the natural environment items on the quantity of information communication ("how much") required by the TBL framework for the year 2018. The maximum score that can be achieved by a company for the compliance with the natural environment items required by the TBL framework is 80. The 8 natural environment indicators on the amount of information communication required by the TBL framework for which we have given scores from 1 to 5 are: **Indexes; Profiles, Performance Management, Policies, External Relations, Occupational Health and Safety, Product Performance and Sustainability.** We can notice in *Chart no. 1*, that the relative score on the compliance of the sustainability reports with the natural environment items required by the TBL framework for the year 2018 was achieved by the companies: PETROM with a score of 100%, followed by Oltenia Distribution with 97,50% and by Premier Oil with 96,25%. Moreover, we can notice that the lowest percentage was achieved by Adrem. The score of 47,50%, obtained by the company Adrem is due to the fact that it published only two sustainability reports, for 2016 and 2018, which shows that the company's orientation towards publishing non-financial information has not been a priority. Thus, to show also the degree to which ("how much") each natural environment item complies with the GRI 4 standards requirements of the items of information communication quantity on the natural environment, in *Chart no. 2* (see Appendix no. 3), we calculated the total of each item separately in relative values. *Chart no. 3* (see Appendix no. 4) shows the degree of compliance of the sustainability reports with the natural environment items on the quality of information communication ("as measured") required by the TBL framework for the year 2018. The maximum score that can be achieved by a company for compliance with the natural environment items required by the TBL framework is 112. The 8 natural environment indicators regarding the quantity of information communication required by the TBL framework for which we have given scores from 1 to 7 are: **Indexes; Profiles, Performance Management, Policies, External Relations, Occupational Health and Safety, Product Performance and Sustainability.** In *Chart no. 3*, the maximum relative score on the compliance of the sustainability reports with the natural environment items required by the TBL framework for the year 2018, was achieved by the companies: PETROM with a score of 100%, followed by the companies Oltenia Distribution, Premier Oil and Urenco Ltd with a score of 96,45%. Furthermore, following the analysis, we can notice that the lowest percentage was achieved by Cairn Energy and Adrem. The score of 75,00%, is obtained by the company Cairn Energy and 79,46% by Adrem. Therefore, in order to show the degree ("how much is measured") to which each item is respected regarding the natural environment with the requirements of GRI 4 standards of the quality items of the information communication on the natural environment, in *Chart no. 4* (see Appendix no. 5), we calculated the total of each item separately in relative values.

Results and discussions

Currently, the communication of information on corporate social responsibility is mandatory or voluntary to reduce information asymmetries. Furthermore, companies are actively oriented customers needs and expectations by implementing aspects concerning the natural environment in order to obtain business performance. Therefore, protecting the environment has become a high priority for the entities. The companies in the sample are oriented to guide themselves in publishing sustainability reports using the Global Reporting Initiative (GRI) G4 Guidelines reporting framework, in the "Core" option, to reflect openly on how they are reported, as well as and the impact that entities have in the operating area, in all three areas: economic, social and environmental, and are also influenced by the entry into force of Directive 2014/95 / EU and by OMFP 1938/2016, which introduced the "Non-Financial Statement", the Romanian companies being compelled to publish information on CSR. This high level of compliance of the sustainability reports on the TBL and GRI framework is also due to the change and awareness of the managers that the application and asymmetry of the non-financial information optimize the quality of the natural environment indicator, leading to increased company performance. In our study, the only Romanian company that achieves balanced compliance of the reports reaching 100% score on both analyzes, in terms of quantity and quality is PETROM. This degree of compliance of sustainability reports on compliance with the items required by GRI can be explained by the fact that Petrom has been publishing sustainability reports since 2011. The voluntary behaviour in publishing sustainability reports prior to the adoption of Directive 2014/94 / EU underlines a mimetic, coercive and normative isomorphic behaviour. The coercive isomorphic behaviour emerges for the period when sustainability reports became mandatory, through legal measures, since reporting for 2017, and the normative one results from the fact that the report was prepared in accordance with the GRI Standards: Core option and guided by the GRI G4 supplement specific to the oil and gas sector. This shows the commitment to openly communicate to all our stakeholders the impact of activities on the economy, society and the environment as well as the actions taken in order to better meet their expectations. This high degree of compliance is due to fines and penalties amounting to EUR 0.090 million (2017: EUR 0.076 million). These sanctions were a consequence of environmental incidents, including discharges and exceeding the limit values for the elimination of pollutants in the environment. The low degree of Adrem company in terms of quantity and quality of communication of environmental information indicates that for the Adrem entity the publication of sustainability reports is determined by the fact that, Adrem presents in its sustainability report it respects the protection norms of environment, complies with the laws and rules of the communities where it operates and also with the GRI Standards: Core option and guided by the GRI G4 supplement, resulting in a coercive, normative and mimetic mechanism, meaning that this mechanism is influenced by CNVM and reporting at the group level, the company not being actively interested in publishing non-financial information (Guşe et al., 2016).

Conclusions

As a result of globalization and the need to comprehend the principles of reporting by stakeholders and the entities. Companies are concerned about increasing sustainability goals and taking into account the notion of TBL derived from the definition of sustainable development in the Brundtland Report (Elkington, 1999). TBL reporting helps companies avoid, reduce, or control the harmful impact of their activities on the environment and population. Thus, this study examines the effect of stakeholder pressures and the isomorphism developed by DiMaggio and Powell (1983), on the corporate decision to ensure sustainability reports. As regards the first hypothesis, we can observe that all 9

companies indexed in the database of the GRI website comply with the requirements of the TBL reporting framework and the GRI 4 standards. The results obtained from the analysis of the companies' reports show that the uptake of the quantitative and qualitative reporting practices according to the TBL framework is significant. The second hypothesis refers to the benefits of increased performance on sustainability reporting practices. These are underlined in the sustainability reports and supported by Vaz et al. (2016), which shows that a high level of reporting under the two reporting frameworks leads to improved company image, reducing costs and attracting new potential investors. The results achieved by testing the third hypothesis show that the sustainability reports analyzed in 2018 are influenced by the three isomorphization mechanisms: coercive, normative and mimetic. A limitation of the research is given by the small sample used, after applying the selection criteria of the sample resulting in only 9 companies. A solution to show the compliance of sustainable reports with the principles of TBL reporting is the inclusion in the analysis of other sectors of activity too. The second limitation is the absence of discussions with persons within the companies. Another limitation is the possible subjectivity of the scoring and coding grid of reports. The paper intends to broaden the reporting vision of these companies and allow a better understanding of sustainability reporting.

To conclude, the study shows that the large companies in Romania, as well as the companies in Europe, from a quantitative and qualitative point of view, are in a continuous development process concerning the understanding of the TBL and GRI framework. Thus, the entities focus on the development of a sustainable process, with a positive impact on the economy, environment and society.

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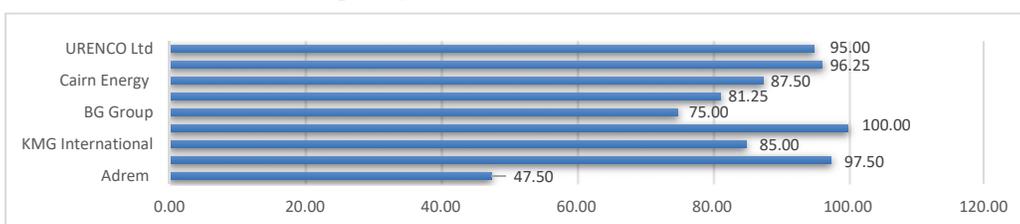
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Appendix no. 1 Sample of companies indexed in the database of the GRI website

Companies	Countries	Section	Year	Sustainability report	Scores	Indicators
Adrem	Romania	Energy	2018	X	1	Yes
Distributie Energie Oltenia SA	Romania	Energy	2018	X	1	Yes
KMG International	Romania	Energy	2018	X	1	Yes
Petrom	Romania	Energy	2018	X	1	Yes
TechnipFMC	France	Energy	2018	-	0	No
BG Group	United Kingdom	Energy	2018	X	1	No
BP	United Kingdom	Energy	2018	X	1	No
Cairn Energy	United Kingdom	Energy	2018	X	1	Not
Premier Oil	United Kingdom	Energy	2018	X	1	Yes
Tullow Oil	United Kingdom	Energy	2018	-	0	No
URENCO Ltd	United Kingdom	Energy utilities	2018	X	1	Yes

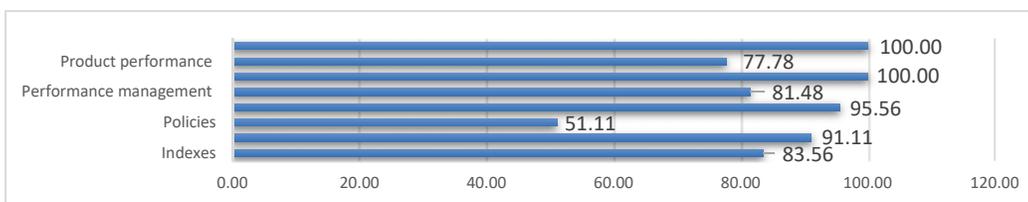
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Appendix no. 2 Chart no. 1 Degree of compliance with the natural environment items on the quality of information communication



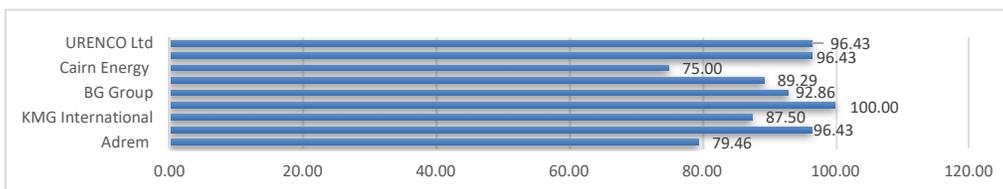
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Appendix no. 3 Chart no. 2 Items of quantity of information communication on the natural environment



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Appendix no. 4 Chart no. 3 Degree of compliance with the natural environment items on the quality of information communication



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Appendix no.5 Chart no. 4 Items of quality of information communication on the natural environment

