SUSTAINABILITY REPORTING IN ORDER TO IMPROVE COMPANIES’ SOCIALLY RESPONSIBLE PRACTICES
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Abstract. The aim of this paper is to show the necessity of disclosure of not only financial but also non-financial information relating to environmental and social aspects of the business in order to gain and/or increase investors’ confidence. The paper is structured in the following way that begins with identifying the need for the extended model of external financial reporting as a basis for environmental and social reporting. Furthermore, we point out the significance and usefulness of this type of voluntary information disclosure by companies. In the last part of the paper we analyze the guidelines for reporting on these business aspects that have a function of framework development and performance indicators selection which company will report on.

Keywords: sustainable development, reporting, Global Reporting Initiative (GRI).

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Introduction
In the modern business environment characterized by business globalization and internationalization and capital markets development, there is a need for extending the existing traditional financial reporting model. In addition, the already well-known accounting scandals in the modern business practices such as Enron, Etreum, VIII, One-Tel and WorldCom highlighted the need for improving financial reporting quality as well as users needs, above all investors’, lenders’ and other creditors’ needs for information that go outside the framework of regular (basic) financial statements. These are non-financial information, planning information, information about corporate governance structure and information relating to environmental and social business aspects. Given the fact that the business community is interested in how environmental and social performance affects the company’s financial results, there is a need for extended external financial reporting model that will represent the basis for company’s environmental and social reporting.

One of the possible areas of the traditional external financial reporting improvement is sustainability reporting. Three key dimensions of the sustainability are economic, environmental and social. By focusing only on the economic growth companies do not pay enough attention to the impact of their business activities on the environment and future generations. Sensitivity of the growing environmental and social problems has engaged a number of international organizations and institutions in order to create adequate rules and regulations in this area. A great number of guidelines and policies in this area was passed and adopted at the international level as well as at the European Union level and the Sustainability Reporting Guidelines established by the Global Reporting Initiative (GRI) are considered as the most comprehensive guidelines.

1. Defining, need and usefulness of sustainability reporting
Sustainability reporting i.e. economic, environmental and social reporting has a relatively long history having in mind the fact that the first environmental reports were disclosed in the late 80’s of the last century by chemical industry companies that had serious problems with the reputation and image in the busines world at that time. In the last twenty years the non-financial reporting concept i.e. reporting on environmental, social and financial performance is largely grown and expanded given that many companies began to be more and more guided by the social responsibility principles in their business activities. Corporate social responsibility is essentially an awareness of the new position and importance that companies have in the modern, global society as well as the responsibilities that it implies. One of the basic responsibilities of the modern company is establishment of the balance between achieving economic aims, environmental and social business aspects. In reporting on these business aspects companies have the following possibilities [3, pp 242]:

1. a separate report on economic, environmental and social performance is published at the same time as the financial report;
2. a separate report on economic, environmental and social performance is published at another time than the financial report;
3. a report on economic, environmental and social performance is integrated in the financial report.

Extension of the traditional external financial reporting model is here reflected in the fact that companies, besides economic performance, should take into account environmental and social performance in their reporting. In addition, environmental and social business aspects can be included in the regular financial statements or disclosed along with the economic aspect in the stand-alone reports. Recently many companies are deciding to disclose above mentioned business aspects as a part of the regular financial statements i.e. for Integrated reporting. It is a new approach to corporate reporting which implies a link between the company’s business strategy, governance and financial performance as well as economic, environmental and social context that companies operate in. The need for environmental and social business aspects disclosure stems from [3, pp. 794]:

1. the increase of environmental regulations and pressure groups who ask for clean air, clean water and sustainable development. Also these groups have a right to know about the social and environmental implications of a company’s operations at all times;
2. the increase of environmental risks;
3. the desire of a company to improve image or gain marketing benefits by using social environmental disclosure to impact on the public’s perception towards companies’ operations.

The implementation of economic, environmental and social reporting concept involves the strengthening of the company’s responsibility for presentation and explanation of economic, environmental and social performance information as well as for satisfying requirements regarding such

1 See more about the integrated reporting concept: http://www.thesier.org.
information disclosure. Companies are constantly motivated and encouraged to voluntarily disclose these information bearing in mind that the investors and other users' demands for reporting on mentioned business aspects have become a significant factor in the process of making business decisions as well as the fact that the publication of such reports is not mandatory. Reporting on economic, environmental and social performance can bring companies recognizable business benefits such as improved operations, as employees develop a deeper understanding of a company's sustainability values, increased investor confidence, enhanced trust and credibility of customers, suppliers and the wider society, as well as strengthened relationships with local communities, civil society representatives, governments and regulators through the company's responsible management of the sustainability issues. By disclosure of the most important sustainability issues the company's report becomes a reliable source of information for all stakeholders especially for investors, lenders and other creditors.

2. Guidelines for sustainability reporting

The need for sustainability reporting and seriousness of the grown environmental and social problems has engaged a number of international organizations and institutions in order to create adequate rules and regulations in this area. When it comes to international organizations and institutions, we emphasize, in particular, the United Nations Environment Programme (UNEP) and the great number of conferences dedicated to the sustainable development concept, then the series of standards ISO 14000 Environmental Management and ISO 26000 Social Responsibility adopted by the International Organization for Standardization (ISO), Sustainability Reporting Guidelines that are established by the Global Reporting Initiative (GRI), Accountability Principles Standard 2008 issued by the institute Accountability as well as Business Charter for Sustainable Development that is established by the International Chamber of Commerce (ICC). All these guidelines were adopted in order to help the business around the world and develop reporting framework for economic, environmental and social business aspects.

At the EU level, besides the large number of the regulations and directives such as Directive 2003/4/EC on public access to environmental information, Aarhus Convention, Lisbon Treaty and other regulations, we can say that the most significant changes in the regulation of environmental reporting took place in the mid-1990s when the European Commission adopted Eco-Management and Audit Scheme (EMAS) [2, pp. 445]. EMAS is one of the most common and most known regulation in this area at the EU level and it was established in order to promote the continuous improvement of the company's environmental performance.

The most comprehensive guidelines in this area at the international level are Sustainability Reporting Guidelines (issued by the Global Reporting Initiative (GRI)). It is a non-profit organization founded in 1997 in Boston that works on providing guidelines for sustainability reporting. Three versions of the guidelines are issued so far (G1, G2 and G3/G3.1) and the GRI is currently working on the preparation of the fourth generation of the guidelines (G4) that will be published and available for use in May 2013. Reports based on the G3 version of the guidelines are still accepted although the GRI advises organizations to apply G3.1 version in the preparation of their reports because this version is the most comprehensive guidance for reporting that is now available. The totality of all guidelines developed by the GRI creates the GRI Reporting Framework. The GRI Reporting Framework should serve as a generally accepted framework for reporting on organization’s economic, environmental and social performance and components of that framework are:

- Sustainability Reporting Guidelines – the basis of the GRI Reporting Framework;
- Sector Supplements – specific information and sustainability performance for each individual sector;
- National annexes – national and regional issues related to sustainable development; and
- Sustainability Reporting Guidelines are the basis of the GRI Reporting Framework and they are related to the disclosure of information about sustainable development. Organizations can gradually and flexibly adopt these guidelines and in that way ensure the transparency of their performance in key sustainability dimensions. Sustainability Reporting Guidelines consist of Principles for defining report content and ensuring the quality of reported information, then Standard

Disclosures that includes performance indicators and other disclosure items as well as guidance on specific technical issues in reporting. The principles which organization should respect in the preparation of the report concerning the contents definition of the report are materiality, stakeholder inclusiveness, sustainability context and completeness. In the Standard Disclosures organizations can find not only basic content of the sustainability report but also three different types of disclosures such as strategy and profile disclosure, management approach disclosures and disclosures of performance indicators – Table 1.

<table>
<thead>
<tr>
<th>Reporting areas</th>
<th>The number of indicators</th>
</tr>
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<tbody>
<tr>
<td>Strategy and Analysis</td>
<td>10</td>
</tr>
<tr>
<td>Organization Profile</td>
<td>13</td>
</tr>
<tr>
<td>Report Parameters</td>
<td>17</td>
</tr>
<tr>
<td>Governance, Commitments and Engagement</td>
<td>9</td>
</tr>
<tr>
<td>Economic Performance</td>
<td>30</td>
</tr>
<tr>
<td>Environmental Performance</td>
<td>40</td>
</tr>
<tr>
<td>Social Performance</td>
<td>121</td>
</tr>
</tbody>
</table>

According to the Standard Disclosures of the GRI-G3 version, there are 121 indicators that organizations should disclose in their sustainability report. The level of the Standard Disclosures application i.e. the level of disclosed indicators should determine persons who are responsible for preparation of the report through the GRI Application level Criteria. There are three application levels within this system (C, B and A) and sign + can be added to each level if the report is externally verified. The highest possible application level of these guidelines is A+ which means that the organizations have fully adopted and implemented the GRI Sustainability Reporting Guidelines in their reports i.e. they have disclosed whole number of indicators or explained the reason for the omission of some indicators. Organizations have two possibilities regarding the assessment of the compliance with the criteria: to self-declare the level and then request GRI Application Level Check to confirm their self-declaration or to ask for opinion from third party.

The fact that the GRI Reporting Framework is the most comprehensive and the most common guidance for sustainability reporting confirms the research conducted by the audit firm KPMG in 2011 which covers companies from 34 countries around the world [4, pp. 6-7]. According to this research 90% of the 250 largest companies in the world (G250 companies) prepare and disclose sustainability report towards the GRI Reporting Framework and that presents an increase of 33% compared to the previous research conducted in 2008. Traditionally, reporting on these business aspects is largely represented by European companies where companies from Nordic countries are dominant, but also companies from the USA, Africa and the Middle East are fast approaching this trend. One of the reasons for the dominant position of European companies, especially companies from Nordic countries, is that these countries have mandatory requirements for environmental performance reporting. Based on all above mentioned, we can notice that comprehensive social responsibility reporting is becoming an imperative for companies business around the world.

Conclusion

Business community is very committed to the sustainable development concept and improving environmental and social performance in the modern, changing business conditions. That is in

1 The group of companies G250 companies is drawn from the Fortune Global 500 List in 2010 and represents a great number of industry sectors. Companies from the financial services, insurance, companies that trade securities, companies in the trade and retail in general, companies from the oil and gas industry, electronics and computers, communications and media, automotive and utilities are dominant in this group of companies (280 companies of G250 companies are publicly traded companies).
dicated by numerous world summits dedicated to environmental protection, the struggle against climate changes and other issues which modern society is facing. The need for consideration how environmental and social performance impact company’s financial results, has led to an extension of the traditional external financial reporting model. The information needs of users, primarily investors, lenders and other creditors are constantly growing. These needs are not only for financial information but also for planning information, operational information, information about corporate governance structure and non-financial information related to environmental and social business aspects. In addition, the involvement of numerous international organizations and institutions, through the passing and adoption of the rules and regulations in this area, supports the notion that it is necessary to continue working on the development of environmental and social awareness through the application of mandatory guidelines and mandatory reporting on these business aspects.

**Literature**