Chapter 3
European and International Standards for Social and Environmental Reporting

ABSTRACT

The present chapter promotes the need for reporting improvement to support stakeholders' confidence. It presents, analyze and debate on the most used social and environmental reporting standards, as resulting from companies' activity. It confers a high importance to establishing the way that social and environmental information published by an entity is identified and quantified, in order to be included into financial statements. Through the empirical studies presented in this chapter, the theoretical findings are correlated with practical appliance of corporate disclosure and assurance requirements in terms of social and environmental approaches. Results show that there are significant differences in voluntarily application of guidelines, principles, certification, and assurance standards. Future trends support the development of a single set of standards for reporting social and environmental aspects in order to ensure the comparability and reliability for the stakeholders.

INTRODUCTION

Corporate social reporting has been developed in order to extend the traditional model of financial reporting which emphasizes company's economic performance, and to incorporate social and environmental dimensions (Elkington, 1999). Corporate reporting and assurance guidelines are now more than just simply optional and voluntary reporting measures for listed companies. Corporate Social Responsibility [CSR] disclosure has been of increasing interest as organizations recognize that their actions have consequences that affect all their stakeholders. Concerns of the current state of knowledge in the area of corporate social and environmental reporting have started to emerge in the research community (Milne and Gray, 2007) and most certainly need further encouragement. There are genuinely complex and very difficult issues to be confronted in reporting on corporate actions in relation to the society and the environment (Hopwood, 2009). The challenges resulting from this, both financially and related to

sustainability were reported by an increasing number of businesses. Many companies have board committees that take responsibility for and oversee sustainability on the board's behalf. Most companies also complied with a voluntary social and environmental reporting framework and disclosed adequate adherence to the related principles.

Several financial reporting regulations worldwide require companies to disclose known future uncertainties and trends that may materially affect financial performance. In the case of certain industry sectors or companies, discussion of sustainability performance would be merited where environmental or social concerns may affect a company's ability to expand operations or may damage the reputation and the brand value. New codes of corporate governance have increasingly begun to highlight the need for discussion on the risks associated with sustainability concerns. More and more companies provide concise and focused sustainability information in their annual report, as a proof to reliable disclosure, accompanied by full sustainability reports on their websites, reflecting a growing maturity on CSR disclosures. Nevertheless, the voluntary nature of sustainability reporting explains the great differences in content, and the lack of assurance of disclosed social and environmental information. A lack of external assurance on social and environmental reporting raises concerns regarding its accuracy and reliability and it is an aspect of sustainability reporting to which companies should give due consideration for the next years.

Corporate Social Responsibility is part of the Europe 2020 strategy for smart, sustainable and inclusive growth. In March 2010 the European Commission made a commitment to *renew the EU strategy to promote CSR as a key element in ensuring long term employee and consumer trust*. More and more issues of voluntary social and environmental standards introduced by Global Reporting Initiative are included in today's compulsory reporting. Thus, in addition to existing International Financial Reporting Standards [IFRS], International Accounting Standards Board [IASB] published for public comment a proposed non-mandatory framework to help entities prepare and present a narrative report, referred to as Management Commentary (IASB, 2009, 2010). This report helps users of the annual reports to understand, among others how non-financial factors influence the information presented in the financial statements.

Considering all the above, the status of development in social and environmental reporting and assurance standards was analyzed, both as a projection of seminal researches conducted in the field and as a synthesis of the main reporting frameworks identified along the research. The area of study for the empirical research conducted for this chapter consists of identification of the main directions chosen by companies in reporting social and environmental aspects of their activity, in order to establish some disclosure behaviors adopted by the large corporations. Given the voluntarily nature of CSR reporting and the variety of conclusion of previous studies, a thoroughly analysis of the content of corporate social reports is required in order to highlight the main reporting frameworks used by companies. The study is conducted for the reporting year 2008, and addresses, also, the level of certification and of assurance they considered to be adequate for their disclosure. After analyzing the CSR reports for any reference to social and environmental reporting and assurance standards, two main reporting frameworks and two assurance standards that companies addressed to may be found: Global Reporting Initiative Guidelines, United Nation Global Compact Principles, Accountability AA1000 Assurance Standard (AA1000AS) and International Standard on Assurance Engagements (ISAE 3000). A very explicit disclosure of ISO certification is also presented in the CSR reports.

The United Nations Global Compact [UNGC] and the Global Reporting Initiative [GRI] are both voluntary initiatives that play complementary roles in advancing universal principles by promoting organizational accountability and improved performance. They are mutually reinforcing, and provide

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