

Chapter 3

Compliance in Sustainability Reporting

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ABSTRACT

The research is aimed at assessing the benefits of compliance for corporate sustainability and sustainable development. The main achievement of the research is the outcome of the survey on companies' public reports to identify the trends and measure the progress achieved in disclosing information on compliance. There are both business and public drivers for disclosure of compliance information in non-financial reporting. Best practices in disclosing information on compliance by the company-leaders were revealed. There is a positive trend in the expansion of information on compliance in sustainability reports in recent years. Some problematic areas in reporting on compliance were identified. The outcomes of the research call for companies to disclose information on compliance in a more explicit way. The results may be valid for the improvement of corporate reporting practices.

INTRODUCTION

Compliance today is expected to address the interests of the third parties affected by the activities of companies. That's why compliance is no more an internal function of an organization but is becoming a public function and an integral part of corporate social responsibility (CSR), based on the CSR concept provided by ISO 26000 (2010).

Let's have a little deeper insight into CSR to assess its correlation with the compliance function of an organization. CSR is defined in different ways but in general the concept comes down to responsible behavior and its impact on social well-being. Different interpretations of CSR clarify responsibility through behavior in accordance with international norms and compliance with laws but, in particular, focus on ethical standards, for example: "corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of

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life of the workforce and their families as well as of the local community and society at large” (Holme & Watts, 2000, p. 8). Such an approach implies that companies are expected to do some social good beyond their own interests and regulators requirements (McWilliams, Siegel, & Wright, 2006), in other words, through CSR the companies demonstrate how their business decisions and operations contribute to economic and social development and an environment that favors sustainable development and corporate sustainability.

CSR and corporate sustainability are often identified as one, however if differentiating them, corporate sustainability is reflecting the sustainable development of the company in terms of its CSR activity and thusly CSR aims at corporate sustainability. Corporate sustainability is achieved through long-term positive customer and stakeholder relations supported by following high ethical standards in social responsibility. “Corporate sustainability starts with a company’s value system and a principled approach to doing business... By establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and planet, but also setting the stage for long-term success” (UNGC, n.d.).

As is stated above compliance is integrated into companies CSR activities. This is particularly accurate when compliance relies on the promotion and support of ethical values and principles to secure responsible behavior towards stakeholders. If the company considers compliance only in terms of risk-management and strives only to meet the requirements of regulators then it may fail to meet ethical obligations to stakeholders and conduct responsible business. However, compliance based on an ethical approach to doing business encourages efforts that go beyond behavior required by legal obligations and thus engages in sustainable development. Sustainable companies are those that engage not only their legal responsibility but also their social responsibility:

Social responsibility involves an understanding of the broader expectations of society. A fundamental principle of social responsibility is respect for the rule of law and compliance with legally binding obligations. Social responsibility, however, also entails actions beyond legal compliance and the recognition of obligations to others that are not legally binding. These obligations arise out of widely shared ethical and other values. (International Organization for Standardization [ISO], 2010, p.6).

This research aims to consider the role of compliance function in CSR, prove its merit as a sustainability factor and provide findings for its significance in non-financial reporting.

THE ROLE OF COMPLIANCE IN SUSTAINABLE DEVELOPMENT

Progressive compliance systems aim not only to demonstrate that companies have made their maximum effort to abide by the law and avoid prosecution by regulators but also to optimize their input into the prevention of practices that harm sound economic relations, undermine confidence of market players, investors and stakeholders, and potentiate criminal activity. Organization and Economic Co-operation Development [OECD] Guidelines for multinational enterprises (2011) clarify how compliance programs contribute to the goals of sustainable development. For instance, by implementing and supporting anti-corruption compliance, companies contribute to counteract against corruption globally. OECD guidelines encourage enterprises to develop and adopt adequate internal controls, ethics and compliance programs or measures for the purpose of preventing and detecting foreign bribery.

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