ISSN (Online): 2367-6957 ISSN (Print): 2367-6361

Izvestiya Journal of Varna University of Economics 1 (2017)
Contents lists and full text available at RePEc and Google Scholar

IZVESTIYA

Journal of Varna University of Economics

http://journal.ue-varna.bg

THE QUALITY IN CORPORATE SUSTAINABILITY REPORTING

Jadwiga ADAMCZYK[1]

[1] Prof. dr hab., Department of Economics and Organization of Enterprises. Cracow University of Economics, Rakowicka str. 27, 31-510 Kraków Poland. jadwiga.adamczyk@uek.krakow.pl

JEL Q56

Abstract

An increase in social awareness of modern stakeholders causes that they expect to be informed about all aspects of corporate activity. Such information should include not only financial performance, but also provide the non-financial data.
Sustainability reporting includes information on economic, ecological and social performance. The GRI guidelines are used by most companies as a reference for sustainability reporting. Quality is an important issue in the sustainability reporting process.
The role of quality in corporate sustainable development is presented in this paper. Quality occurs as a GRI rule and also as an integral part of reports. The fourth generation of GRI G4 guidelines, including an approach to quality management as an element of a report is discussed.
Based on 37 reports awarded for the best social reports in 2015 the extent of information provided in sustainable development reports, in particular those related to quality management is examined.

Keywords:

sustainable development, GRI guidelines, report, quality.

Citation: ADAMCZYK, J. (2017) The Quality in Corporate Sustainability Reporting. *Izvestiya Journal of Varna University of Economics*. 61 (1). p. 63-76.

Introduction

Corporate sustainability reporting becomes very popular, although it is not mandatory. Many companies increase the extent of information by voluntary disclosures to give fuller picture of their activities. More and more companies publish information on adherence to the principles of sustainable development (SD). Since there are no mandatory requirements related to elaboration and disclosure of information on sustainability development, there is discretion regarding the amount of results, level of detail and forms of presentation. Standards and guidelines became a reference in selecting SD principles, areas of evaluation and reporting. The most important of these are Global Reporting Initiative (GRI) guidelines.

At corporate level sustainable development deals with and equilibrium between company economic, ecological and social activities. This is connected with the process of effective manufacturing of socially desired products and services, while reducing the use of natural resources and obeying environmental protection and meeting social expectations of stakeholders. Corporate management in compliance with the principles of sustainable development meets the needs and interests of employees, customers, suppliers, shareholders and the local community.

Quality is connected with corporate sustainable development. The quality category is most often identified with characteristics of products and services by which products can meet customer expectations. Quality applies to the whole enterprise management, including reporting and presenting results to a wider group of stakeholders.

The aim of this paper is identification of quality in corporate sustainable development reporting. The role of quality as the GRI principle of sustainability reporting and reference to quality assessment in GRI G4 reports.

The role of quality in enterprise sustainable development

To reach and keep its competitive edge on the market any modern enterprise must consider increasingly stricter requirements posed by enterprise surroundings. Quality becomes one of factors determining the enterprise success. Quality is defined as the entirety of properties and characteristics of a given product or service in design, manufacturing, operation and marketing stages by which products meet customer expectations (Beckford (1998)). Simultaneously quality is the entirety of properties and characteristics of a given product and service deciding on its ability to meet identified or potential needs (Griffin 2002). Quality should be identified with the process of coordinated and effective actions related to organisation management and making current and strategic decisions, thus we can say about the quality of management. It is assumed that almost all enterprises have their own action strategies but only some of them are efficient and bring success, thus meeting the expectations of their environment. Quality management depends to a large extent on leadership, thus more and more often the term "quality leadership" is used (Lock (2003)). The quality effects shaped in managing processes are achieved in actual product manufacturing processes and services provided.

In variable and unstable conditions the safety of business activity is based on good relations with concerned entities, including customers that is a decisive stakeholder group (Rodriquez, Ricart 2002). Customer satisfaction is a measure of the degree to which the customer's quality-related expectations are met.

The ISO series 9000 standards is one of basic quality management systems. In ISO 9000 eight quality management principles were defined, namely: customer focus, leadership, involvement of people, process approach, system approach to management, continual improvement, factual approach to decision making and mutually beneficial supplier relationships. System approach to processes means creating value added to concerned parties, while ensuring that an organisation achieves permanent success. Process approach means that all management functions are executed at each stage as a defined and orderly process.

Quality of products and services relates to many features and properties that determine the level of customer satisfaction, e.g.

- reliability, service life,
- usability, suitability,
- conformity to requirements, standards,
- durability, service life,
- easy operation and quick repairs,
- appearance, aesthetics, odour and perception,
- product brand-related quality perceived by a customer (Griffin (2002)).

Total Quality Management (TQM) is currently the most advanced approach to system quality management. The TQM concept gives priority to quality management and places it at a strategic level. Quality is considered as one of main sources of competitive edge. The TQM model developed by John Oakland distinguishes three pillars: quality management system, people teams and quality management methods and tools (Oakland (2000)). These pillars are backed by organizational culture, communication and commitment. This means that value system, communication between employees and stakeholders and commitment to implementation of organization activities affect organization quality.

Achievement of the desired quality is connected with a responsibility for a product and its users. Total Quality Management should ensure continual improvement in achieving desired quality. This is the concept of general quality with commitment of all staff, not only the top management. This is the management process implemented into all enterprise functions and product manufacturing stages for achieving customer satisfaction. Such a management process includes not only product improvement, but also the improvement of labour quality, i.e. staff qualifications, technology, processes, marketing and planning activities. Total Quality Management is a new method of thinking and operation to create an organization for meeting stakeholder expectations (especially customers) in the present and future.

Such enterprise management aspects are pointed out also by the concept of sustainable development. Sustainable development monitoring and assessment can proceed more efficiently within the framework of existing processes and organizational structures as well as enterprise quality management system. Linking quality management and sustainable development is caused by the transition from meeting customer needs and expectations to creating value for a wider group of stakeholders. An important TQM element is paying more attention to quality of links between an enterprise and its environment that is demonstrated in safety and working conditions as well as environmental protection and meeting other social goals. All these management aspects are areas of interest in corporate sustainable development reporting.

Prerequisites for measuring the results of corporate sustainable development

So far the main source of information about enterprise activity and its results were financial statements (Clark, Feiner, Viehs (2015). However, the international dimension of business activity induces the need to provide information that could be interesting not only to investors, but also to different stakeholder groups such as customers, local communities and social organizations. Reports should provide information on an effect of enterprise decisions on the society and environment. At present reporting to stakeholders is becoming a standard procedure. This applies in particular to sustainable development reporting to enhance corporate transparency. Disclosure of information on implementation of economic, social and environmental goals improves competitive advantage and increases the enterprise investment attractiveness to investors. The enterprise reporting system includes a complex of information designed for enterprise management at different management levels and internal and external stakeholders.

Reporting of economic, environmental and social effect is done voluntarily, but is becoming more and more common (Dilling (2010)). Corporate sustainability reporting means the measurement of the effects considering economic, environmental and social dimensions and disclosing them into the internal and external environments. With reports an enterprise can inform concerned parties about its activities related to sustainable development. Sustainability reporting is the voluntary initiative more often undertaken by enterprises.

GRI guidelines in sustainability reporting

Lack of generally applicable standards for disclosure of non-financial results implies the scope and quality of published data. These needs are met by *Global Reporting Initiative* guidelines that set generally available unified sustainability reporting rules. Preparing a report according to these guidelines that specify the extent of published information and the opportunity of independent verification increases the credibility of disclosed data.

Global Reporting Initiative (GRI) sustainability reporting guidelines belong to fundamental reporting standards. The first version of GRI guidelines was published in 2000, the third version, so called G3 in 2006, and the fourth integrated version G4 was completed and published in 2013 (Global Reporting Initiative (2013)). At the same time, a two-year transitional period for enterprises has been established, after which all reports will be prepared in compliance with G4 guidelines.

The overarching principle of GRI sustainability reporting guidelines is transparency in economic, social and environmental protection effects as a fundamental component of effective relations with stakeholders, investment decisions and other market decisions (Global Reporting Initiative (2006)). The aim of G4 guidelines is to support sustainable development of the world economy by balancing economic, environmental and social activities.

The G4 guidelines were divided into two parts (G4 Sustainability Reporting Guidelines (2014)):

– part I: Reporting Principles and Standard Disclosure that establishes principles and criteria to be met for reporting according to the Guidelines, and its scope.

– part II: Instruction, so called the Implementation Manual that details how to apply individual principles, how to prepare information and how to interpret concepts contained in Part I.

The GRI Guidelines contain fundamental reporting principles that specify how to present information related to implementation of sustainable development. It defines three type of standard presentation of information concerning:

– strategy and organization's profile (viewing the sustainable development concept with respect to strategy adopted);

– approach to management (enterprise's approach to economic, social and environmental effects);

– performance indicators (more than eighty indicators are proposed to measure an enterprise's performance relative to sustainable development).

The quality of reporting and disclosure of effects according to GRI

Sustainable development reporting determines not only the quality of enterprise's management, but it also concerns quality assurance issues. The *Global Reporting Initiative* provides reporting principles, reporting guidelines and standard disclosure. The significance of GRI is manifested by keeping with the principles of reporting quality assurance as well as by including management quality into reports. The reporting principles are intended to ensure the transparency of disclosure of issues and indicators in the report (Fig. 1). The GRI principles are divided into two groups:

- principles for defining report quality and proper presentation of information,
- principles for defining report content, i.e. issues and indicators to be disclosed in the report.

Principles for assuring reporting quality	Principles for reporting according to GRI	Principles for defining issues and effects
• balance • comparability • accuracy • timeliness • clarity • reliability	**Principles for reporting according to GRI**	• significance • stakeholder inclusiveness • sustainable development context – economic effects – environmental effects – social effects

Fig. 1. GRI reporting principles

Assurance of report quality requires the following principles to be applied: balance, comparability, accuracy, timeliness, clarity and reliability.

According to the principle of balance the report should contain information reflecting positive and negative aspects of the enterprise's activities to enable an assessment of overall performance. The report should avoid selections and omissions, but should possibly provide a well- balanced assessment of the enterprise's effects. The report prepared in compliance with GRI principles should:

– contain both advantageous and disadvantageous effects,
– enable assessment positive and negative tendencies over time,
– present information according to its significance.

It is important to adhere to the principle of comparability in the report. Information related to economic, social and environmental effects should enable comparing these data against assumed objectives, enterprise's past performance and the performance of the other organizations (benchmarking). Maintaining consistency in methods and assumptions of presentation of information allows to compare them over time. For comparative analysis it is important to give not only indicators (e.g. rejection rate in manufacturing), but also absolute values (e.g. the amount of waste in tonnes).

Assurance of report quality requires the principle of accuracy to be observed: The presented information should be, to the degree possible, sufficiently accurate to reflect the actual state, while being understandable for the most numerous group of stakeholders. The optimal accuracy level should be kept in the report. The report should contain:

– results of measurements,
– measuring techniques and methods for indicator determination,
– description of adopted assumptions and the source confirming qualitative assessment.

According to the principle of timeliness the reports should be prepared on a regular schedule and contain up-to-date effects. Timeliness refers both to the regularity of reporting and its proximity to the actual events described in the report. The best solution would be a combination of the GRI reports with the financial statements.

The report quality is also determined by its clarity. Information contained in the report should be comprehensible and have a readable form. The report should contain information at a specified specificity level to stakeholders to be easily and properly used. The information aggregation level should not affect its generality. Therefore the possibility to get more detailed information through references to data source enhances the report quality.

The principle of reliability means that information should be gathered, analysed and disclosed in a way that enables internal and external auditors to verify their veracity. Stakeholders should have confidence that a report contains data that can be verified by external entities and original data exist.

When identifying issues and appropriate indicators the following principles are used: significance, stakeholder inclusiveness and sustainable development context. In sustainable development reporting the term significance is equally important as in financial reporting. Defining significance is not limited to those aspects that have importance for an enterprise's financial performance, but cover also the enterprise's economic, social and environmental impacts. When determining the significance of information both internal factors (e,g, mission, strategy) and external factors, i.e. the organization's impact on stakeholders and entities in the value chain are taken into account.

The principle of significance applies not only to selection of items to be reported, but also to selection of indicators for effect assessment, considering different data complexity and specificity levels. When assessing outer factors the issues pointed out by stakeholders or wider social expectations are of essential importance.

Reporting should keep the principle of stakeholder inclusiveness, all stakeholders. At first, when preparing the report an organization should define its stakeholders. Stakeholders are entities or persons on which enterprise's actions or products have a significant impact, and they can affect the organization's ability to effective implementation of strategies and goal achievement. Stakeholders are entities and persons for which an enterprise's operation is of especial importance (e.g. employees, shareholders, suppliers) and external entities (e.g. customers, local community). Stakeholder expectations are the reference point of many enterprise's decisions that should be taken into account in the report preparation process. They refer to the scope, range and application of indicators and its verification. Expectations, and even claims of some stakeholder groups must consider expectations of stakeholders altogether. To identify stakeholder expectations different forms of stakeholder engagement in enterprise activity are used. The stakeholder engagement process should be included into the report. A reporting organization should document the adopted way of stakeholder engagement and its impact on report content and sustainable development implementation.

The report prepared according to the GRI guidelines should present an organization's effects in a wider sustainable development context. The report should consider whether the organization contributes to increase or decrease economic, social and environmental effects at local, regional and global levels. Thus the environmental results should be presented with reference to limits of resource use and permissible pollutant levels. In turn, information considering wages and allowance should be referenced to the minimum wage and average remuneration level.

Corporate sustainability report content

The fundamental reporting principles specify how to present information related to implementation of sustainable development. The GRI report arranges subjects in two categories:

– *Disclosure on Management Approach*

– A range of effects divided into subject indicators (*General Standard Disclosure*) and specific (*Specific Standard Disclosure*).

General standard disclosure gives a view on the significance of sustainable development from the perspective of the enterprise. It contains standardized presentation of general information, such as:

- Organization strategy and vision of sustainable development,
- Organizational profile - name, primary brands, products, location of headquarters,
- Corporate governance - supervisor board structure and composition and bodies responsible for economic, environmental and social effects,
- Stakeholder engagement - stakeholder group map and way of their engagement in the reporting process, basic stakeholder problems,

- Report profile - reporting period, date of recent report, contact person,
- Ethics - organization's values, principles and standard procedures contained in ethical codes.

The further part of the report contains the performance indicators (Table 1).

Table 1

Sustainable development reporting categories and aspects in GRI guidelines

Symbol	Categories of sustainable development	Sustainable development aspects
G4-EC	ECONOMIC	Economic effects Market presence Indirect economic impacts
G4-EN	ENVIRONMENTAL	Raw materials and materials Energy Water Biodiversity Emissions, effluents and waste Products, services Transport Compliance with environmental regulations
	SOCIAL	
G4-LA	Labour	Employment and decent work
G4-HR	Human Relations	Observance of human rights
G4-SO	Society	Impacts on society
G4-PR	Public Relations	Product responsibility

Source: *Global Reporting Initiative, Sustainability Reporting Guidelines 2006,* www.gri.org

Subject indicators relate to basic report topics (Colding, Peattie (2005)). The GRI G4 Guidelines offer more than 80 universal performance indicators that are extended by sectoral indicators that consider its specificity.

Quality in corporate sustainability reporting

In its general part the GRI report presents the structure of business and individual customers, customer locations, offers addressed to customers, methods for measuring customer satisfaction, customer right observance practices and percentage of received and settled complaints (Table 2).

Quality assessment appears in the GRI G4 report with respect to:

– product quality,
– labour quality,
– product responsibility, including effects related to:
- product impacts on customer health and safety,
- product labelling,
- customer satisfaction,
- customer right protection,
- customer claims,

– personnel training and education,
– the environment (especially ecological quality of products).

Quality is an important issue not only in the process of report information preparation, in particular for evaluating effects of sustainable development. In the report prepared according to the GRI G4 guidelines, quality occurs not only in general part, but also as quality assessment included into performance indicators (Table 2).

Reporting the effects of sustainable development is conducted more efficiently in enterprises that have implemented quality management systems (ISO 9001 standards related to products), environmental management systems (ISO series 14000 and occupational health and safety standards). Meeting customer needs and expectations within the framework of quality management fits in creating value for stakeholders in corporate sustainable development. Achieving a desired product quality is linked with responsibility for the product and its user, that is subject to assessment in sustainability reporting according to GRI G4.

The responsibility for the environment and its protection is also the subject of evaluation in the GRI report. The implementation of ISO 14001 environmental management systems leads to continual monitoring and improvement of corporate environmental management, thus enabling sustainable development environmental goals to be achieved.

The next aspect is occupational safety and health that includes a number of actions providing better working conditions to take care of employees. The scope of assessment is specified in GRI Guidelines under social goals (Labour).

Table 2

Quality in corporate sustainable development reporting according to GRI G4

Performance area	No.	Performance indicators
Economic indicators		
	EC1	Sales value
	EC6	Market share
	EC8	Number of claimants
Environmental indicators		
Product and services	EN27	Assessment of product ecological quality
Social indicators		
Education and training	LA11	Number of hours of pro-quality training courses for employees
	LA21	labour quality assessment
Product responsibility		
Customer health and safety	PR1	Percentage of product and services subject to assessment due too health and safety
	PR6	Programmes for observance of marketing communication and sponsoring law, standards and codes
	PR7	Number of incidents of non-compliance with regulations and codes
	PR8	Number of substantiated claims for breaching customer privacy and loss of personal data
	PR9	Fines or penalties for non-compliance with law and regulations concerning delivery and use of products and services

Source: *Own research.*

Since 2007 in Poland the Responsible Business Forum has organized the Social Reports competition (Responsible Business Forum (2015)). In the period 2007-2015 the number of submitted reports increased. In 2015 was the ninth edition of the Social Reports competitions. Social reports are prepared according to different standards and guidelines concerning sustainable development and social responsibility. These concepts are congenial but not identical, that translates into other reporting areas hard to comparison (Adamczyk (2014)). 37 reports took part in the competition, with 10 of them being prepared for the first time. The scope and quality of information disclosed in reports are increased. Most companies (even 31) used the GRI G4 Guidelines, 4 companies used its own descriptions and 2 enterprises prepared reports according to Global Compact principles.

The scope of subject information in sustainable development reports depends on the business sector (Table 3). The highest reporting level was noted in banks and chemical industry. A considerable part of information is related to economic, effects, including product sales data that can indicate indirectly its quality and market share. Information on the number of claimants is disclosed less often.

Table 3

Share of subject information in corporate sustainability reports in Poland

Effects disclosure	Banking	Industry	Commerce
Economic effects			
– sales income	●	●	●
– market share	○	●	●
– number of claimants	•	•	•
Environmental effects			
– assessment of product ecological quality	•	●	○
Social effects			
– number of hours of pro-quality training courses	○	●	○
– labour quality assessment	●	○	○
Product responsibility			
– customer health and safety	•	●	○
– programmes, standards, codes	●	●	●
– number of non-compliances	•	•	•
– number of claims	•	•	•
– penalties	•	•	•

Legend: ● - considerable, ○ - moderate, • - modest
Source: Own research.

Environmental effects, including product ecological quality assessment, were disclosed by industrial enterprises to whose activity external stakeholders are vulnerable. Information on the number of training courses and work quality assessment was often disclosed, mainly in connection with the requirements for implementation of ISO 9001 quality management systems.

In the product responsibility aspect the reports presented programmes, standards and codes of good practices and care of customer health and safety. However, there was very small share of information on the number of non-compliances, claims and penalties. It follows from the analysis of reports that information that companies wish to disclose is presented.

The effects of actions in different areas are presented. However, there is no information about related legal requirements (norms). If information on disposal of a specified volume of waste (or packaging utilization) is communicated without information whether such activity is on a voluntary basis or resulting from a legal obligation, it is possible to assess a contribution to sustainable development but without assessing decision prerequisites.

Conclusion

The GRI Guidelines are the most common unified standard for sustainable development reporting principles in the world. These are used for corporate sustainable development reporting. Reporting includes economic, environmental and social aspects. The category of quality occurs both in the reporting process and in assessment of sustainable development effects.

Within the area of product responsibility information related to standards, programmes and codes as well as customer health and safety was disclosed. However, information on the number of claimants was disclosed less often. This follows from the consistency of GRI G4 with other standards, e.g. quality, environmental and safety management. The analysis of reports allows to note that the most important question was the way of information presentation, not its quality. Discretion regarding corporate sustainable development reporting affects report quality and credibility.

An advantage of GRI G4 is its consistency with other standards related mainly to CRS, for example: OEDC guidelines, UN Global Compact principles and Business and Human Rights guidelines as well as, that is important, ISO standards regarding environmental, quality and safety management, and environmental protection.

References

1. ADAMCZYK, J. (2014). *The interrelationship between sustainable development and corporate social responsibility* [in]: Towards sustainable development, Ed. W. Adamczyk, 19th Symposium IGWT, Cracow University of Economics, Kraków 2014.
2. BECKFORD, J. (1998). *Quality. A Critical Introduction*, Ed. Routledge: Taylor and Francis Books Ltd.
3. CLARK, G. I., FEINER, A., VIEHS, M. From the stockholder to the stakeholder: How sustainability can drive financial outperformance, 2015, http://www.arabesque.com (15.06.2016). 15/06/2016].

4. COLDING, K., PEATTIE, K. (2005). *In Search of a golden blend: Perspectives on the marketing of fair trade coffe,* Sustainable Development, 13(3), p.154-157.
5. DILLING, P.F.A. (2010). *Sustainability Reporting in a Global Context: What are the Characteristics of Corporations Empirical Analysis*; International Business & Economics Research Journal. Vol. 9(1), p. 20-22.
6. G4 Sustainability Reporting Guidelines 2014, Global Reporting Initiative (2014), www.globalreporting.org/reporting/g4 [Accessed: 15/06/2016].
7. Global Reporting Initiative, *Sustainability Reporting Guidelines* (2006), www.gri.org. [Accessed: 4/3/2012].
8. Global Reporting Initiative, *Sustainability Reporting Guidelines* (2013), www.gri.org [Accessed: 1211/2015]
9. GRIFFIN, R. W. (2002). *Podstawy zarządzania organizacjami*, Warszawa PWN. (in Polish).
10. LOCK, C.H., et al. (2003). *Industrial Excellence: Management Quality in Manufacturing*, Springer.
11. OAKLAND, J. (2000). *Total Quality Management*, Butterworth-Heinemann, London.
12. Responsible Business Forum: Social reports; http://raportyspołeczne.pl [Accessed: 10/12/2015]. (in Polish).
13. RODRIQUEZ M. A., RICART J. R. (2002). *Towards the sustainable business,* “Revista de Antiguos Alumnos”, IESE Universidad Navarra, no 85.