APPLICATION POSSIBILITIES OF NON-FINANCIAL REPORTING GUIDELINES

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Abstract

Publishing information's regarding the company triple bottom line(economic, environmental, and social results) is more and more important in evaluating total business success. The existing frameworks of such reporting, like the guidelines of the Global Reporting Initiative, the AccountAbility1000 standard and the Sunshine standard, enables systematic tracking of key business environmental and social aspects. Only with regular publishing and synchronizing with the business financial results an analytical base for measurement of non-financial results can be formed.

Key words: *enterprise, triple bottom line, sustainability, standards, environment, society*

1. INTRODUCTION

Modern business environment imposes a growing need for analysis and use of non-financial information, especially in the process of business decision-making. Michel Barnier, the commissioner for the inner European Union market has confirmed on March 8th, 2013 the intention of creating legislation for reporting social and environmental qualitative business indicators. The reasons for their poor usage are numerous, but most state the difficulty of formulating, measuring, and tracking qualitative data for the needs of decision making. Such information are often considered as company social responsibility policy, only partly accepted as a concept of managing economic, environmental, and social aspects of business (Elkington, 1997). The concept of non-financial reporting and standardization is a long-term process (Olsthoorn, Tyteca, Wehrmeyer, Wagner, 2001), which, unfortunately, often depends on the current business environment and the *mainstream* approach to business management. Managers and business analysts, accustomed to quantitative data and their derivatives in the form of an indicator, find non-financial data harder to use, and especially to measure. Deviations in using such information between different economic sectors are also very significant, what calls for new modules of analytical application (Lyrstedt, 2005, p. 31). Therefore, the reasons for approaching this issue also on accounting levels are justified, mainly because of the obligation to include key elements of business success that are often found outside of the economic aspects of business.

The importance of reporting the non-financial business aspects is also confirmed by the International integrated reporting council (IIRC), which states that non-financial aspects of business have a significant share in achieving positive business results. In 2009almost 81% of created added value of a company depended on non-financial business aspects, while only 19% was created under the influence of material and financial aspects. For comparison, in 1975 financial aspects influenced the creation of 83% of a company's added value. In generally accepted international standards of financial reporting these aspects are only included as manager comments. This need was also recognized by the IASB and, accordingly, in 2010 they published their new, long prepared guideline for practice use, consistent with IFRS, under the name Managers comment – Presentation framework (Mrša, 2011, pp. 230-231). It is about an extensive and non-binding framework that gives instructions regarding the possibilities of presenting qualitative i.e. non-financial, description information. This made easier the publication of many useful information regarding the most important resources, risks, and business relations that influence the company value and the way to manage them.

It is important to differ non-financial (descriptive) information from information which regards noneconomic aspects. Even those aspects, such as environmental or social, can be expressed numerically (e.g. gas emission quantity, number of work related injuries and reparations for negative

health influences). Companies have been publishing such information for years in different report forms naming them as:

- integrated report
- report on progress
- sustainability/sustainable business/development report
- social responsibility report
- environmental/social report

Out of 250 biggest companies in the world in 2011, 95% of them had some sort of such reports, most often a social responsibility report. For comparison, in 2008 only 81% of them had such reports (KPMG, 2011, p. 6). Most managing boards of these companies state it is imperative to regularly track and measure such non-financial business effects through such reports. Below, the basic reporting frameworks are shown, along with their support standards that complement each other and can therefore be practically used for the purpose of transparently publishing non-financial information.

2. GUIDELINES OF GLOBAL REPORTING INITIATIVE

Global Reporting Initiative (GRI) guidelines[1] are the most widespread in application, and they are also used in Croatian companies like Jadrangalenski laboratory, Agrokor, and Končar. Development of these guidelines is the result of increasing management needs, as well as of their stakeholders[2], for information of non-financial character and changes in the business environment that influence such behaviour. The reason for this is a fact that strategies of social responsibility are now understood as a determinant of modern business success, especially in European countries (Habisch, 2005, Kutnjak, 2011, pp. 151-168). It is a reporting framework with a much larger significance than plain guidelines and this is confirmed by the fact that the latest G4 version gives the base for reporting a total of 376 indicators, which is significant, since within G3 version only 173 indicators were defined. They are divided into these aspects (GRI guidelines G3 2011 and G4 2013):

	Number of indicators	
ASPECT	**G3 version**	**G4 version**
Economic	23	49
Environmental	66	170
Social	84	157

Table 1: Indicators of G3 and G4 guidelines by triple bottom line aspects

Source: GRI guidelines for reporting on sustainability, versions G3 and G4

[1]Guidelines have a label «G» with an attached number, since a few revised editions were published. Therefore the first guidelines were published in 2000, and G2 label guidelines were published in 2002. G3 edition from 2006 were amended in 2011 with a label G3.1, and the latest G4 edition was published in 2013. Unfortunately, G4 edition has still not been translated into Croatian, but the GRI web page provides a translation of G3 guidelines, along with current implementation protocols and sector supplements.
[2]Stakeholders-all interest and influence groups of the company

A larger number of indicators is a result of a significant influence of stakeholders, since the guidelines assume continuous evaluation of their feedback, following the integration of their needs into the report's framework. The timetable of this information enables defining added value contained within the triple bottom result of the company (Ball, Owen, Gray, 2000, Hart and Milstein, 2003). This reflected in version G3.1 that represents a revised and adapted G3 version of guidelines for the needs of users while creating and using the report as a compilation of additional data outside the existing frameworks. Table 2 shows basic categories and aspects compiled within GRI reporting guidelines.

Category:	**ECONOMIC**	**ENVIRONMENTAL**
Aspects	Financial result	Material
	Market presence	Energy
	Indirect economic effect	Water
	Public procurement procedures	Biological diversity
		Emissions
		Waste water and other waste
		Products and services
		Compliance with regulation
		Transport
		Estimates of influence of suppliers on the environment
		Complaints mechanisms of environmental protection

Category:	**SOCIAL**			
Social Sub-categories:	**Work relations and dignified labour**	**Human rights**	**Society**	**Responsibility for the product**
Aspects	Hiring	Investments	Local community	Consumers health and safety
	Worker - management relations	Discrimination prevention	Anti-corruption	Labeling products and services
	Safety at work	Freedom of association and collective bargaining	Public policy	Marketing approach
	Training and education	Child labour	Misbehaviour	Buyer protection
	Diversity and equal opportunity	Forced or compulsory labour	Compliance with regulation	Compliance with regulation
	Wage equality between genders	Safety practices	Evaluation of supplier influence on society	
	Supplier estimates regarding work relations	Indigenous rights	Mechanisms for protecting society from adverse effects	
	Work relation protection	Evaluation		
		Evaluation of suppliers regarding human rights		

	mechanisms	Human rights protection mechanisms		

Table 2: Overview of basic categories and aspects of GRI guidelines

Source: GRI guidelines for reporting on sustainability, version G4, 2006-2011

The advantage of such reporting framework is that it can be adapted for use in over 58 different economic sectors by using the sector supplements that are the basic part of the guidelines. It is a significant advantage in sector analysis implementation. By viewing reports of domestic and foreign companies based on GRI standards it is clear that environmental and social business effects are being represented quantitatively and completely. Such operational efficiency enables GRI guidelines to become the most common non-standardized reporting framework in the world.

A great advantage is the option of independent reports verification, provided by the bodies of the Global Reporting Initiative and approved institutes, as well as auditing companies around the world, what additionally increases the reliability and transparency of published data. The verification process is guided by the fact that management and stakeholders do not make their investment decisions on the basis of non-audited financial reports so the same logic can be used with non-financial reports. Since GRI guidelines are non-obligatory, depending on their verification procedure, companies that use them can express the level of their implementation. In order to meet their needs – from beginners, advanced users of the framework to those that are «in-between» - the framework has three levels of application, levels C, B, and A.

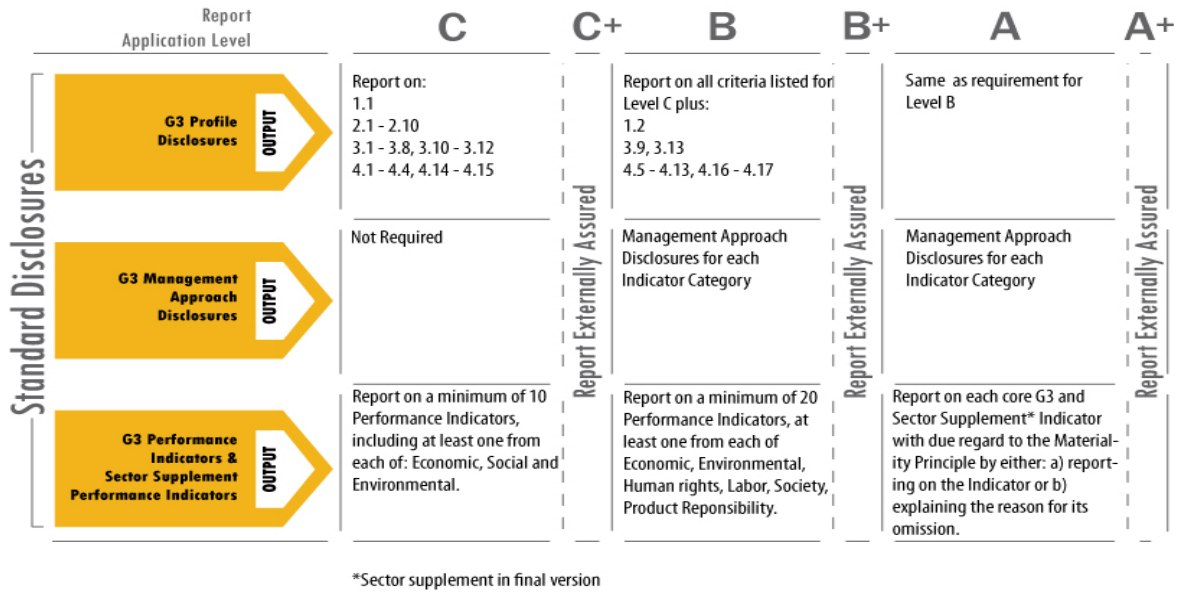


Table 3: GRI Application levels

Source: GRI guidelines for reporting on sustainability, version G3, 2000-2006

Each level reflects a wider range of application or coverage regarding GRI framework. ″Plus″ status (C+, B+, A+) of application is available only in the case of external, independent report verification. Thereby, the evaluation of application level by GRI cannot be equal to an external professional verification, and does not result in a «plus» status.

Many companies try to implement elements of this framework into their own reports of social responsibility, while others use it in the given form for a number of years. It is important to emphasize that continuous publishing of these reports enables triple bottom line evaluation within longer time periods. Continuity of transparent social and environmental data publishing is a key for analytical approach, and therefore there is a greater possibility of making timely decisions related to different aspects of risks.

3. AA1000 STANDARDS

AA 1000 standards insist on a strong inclusion of stakeholders into the process of improving non-financial reporting and information about the business effects of environment and social sustainability. Thereby, a greater transparency can be achieved also with stakeholder involvement in the decision making process. In this situation stakeholders' feedback represent the basis for better management decisions. AA standards have been prepared in 1999 by Account Ability, a British non-profit organization for promoting development sustainability and operations. The name of the standards came from this organization acronym. In the Lexicon of sustainable development (Omazić, Matešić, Bačun, 2012, p. 1) it is stated that *"accountability"* used in a business sense means: *"the state of a business organization in which managers imply liability for their decisions and actions to other stakeholders."* There is no literal translation for this term in Croatian language except for using a general term "responsibility". However, this implies the responsibility of the company and its management to wider aspects of business than economic ones, especially in the area of environmental and social effects.

The purpose of these standards is that business organizations implement internationally accepted easily accessible sustainability principles. This will allow further development of management, evaluation, and communication processes regarding long term business responsibility. Standards cover various aspects of social responsibility and sustainable development, and they can be used for organizations of all types and sizes. AA1000 series consists of the following frameworks:

1. AA1000 AccountAbility Principles Standard-APS (2008)
2. AA1000 AS Assurance standard-AS(2008)
3. AA1000 Stakeholder Engagement Standard-SES (2005, and the new edition proposal plan from 2011).

Standards include a *"User manual"*, and an edition of *"User service"* that give worked out examples for practical use. These standards are based on principles of:

1) involvement of stakeholders in the decision making process
2) significance for the decision makers and
3) responsibility for transparent operations.

Regarding the relevance principle, these standards rely on International Standard on Assurance Engagements (ISAE 3000). They treat this issue similarly, but the basic difference is that AA1000 states the significance regards to all elements that can be important for stakeholders when decisions making. Scope of the AA is wider than ISAE because they adapt the reporting subjects to a wide range of different users, similar to International Standards on Auditing. Similar principle of adapting to beneficiaries can be seen in guidelines of the Global reporting initiative which insists on *"obligatory inclusion of economic, environmental, and social effects that can largely influence assessments and decisions of stakeholders".*

LEVEL	METHOD
1. Consultation *Limited two-way arrangement:* organization asks questions – stakeholders respond	Interview/polls Stakeholder target groups Meetings with selected stakeholders Meetings in large groups/Workshops Feedback mechanisms Advisory boards
2. Bargaining	Collective bargaining(e.g. with workers through unions)
3. Involvement *Two-way or multi-directional arrangement:* Process of teaching all participants in which the organization and stakeholders work independently	Panel discussions for different stakeholders Stakeholders in advisory boards Consensus regarding key issues Involvement in decision making Target groups/Feedback mechanisms
4. Cooperation *Two-way or multi-directional arrangement:* Mutual learning, decision making and activity	Mutual projects between stakeholders and the organization Initiating common projects Partnerships Mutual initiatives of different stakeholders
5.Empowerment *New forms of responsibility:* Delegating decisions to stakeholders, their involvement in management	Involvement of stakeholders in management, strategic, and operative activities

Table 4: Involvement levels of stakeholders by the AA1000 standard

Source: AA1000SES (2005) Stakeholder Engagement Standard

Development of the AA1000 series on sustainability principles has a goal of helping organizations to begin to transparently show their efforts in achieving greater responsibility and sustainable development. Therefore, these standards deal with issues that influence management, business models, and organizational strategy, as well as giving operational guidelines of expressing assurance to stakeholders. AA1000 standards are designed to stimulate an integrated approach and rethinking the demands of a modern business environment, such as eco-efficiency.

Therefore, they often appear as support to integrated reporting in a form of GRI frameworks, but also generally in the form of certificates about such issues. Audit companies and authorized consultants that give certificates based on the AA1000 platform are obligated to pay a symbolic fee to the AccountAbility organization. It is important to emphasize that AA1000 AS Assurance standard which was first published in 2003, was the only such standard with the purpose of confirming elements of sustainable development in business. It is directly tied to the reporting frameworks of socially responsible companies. Its goal is to ensure information credibility by giving the appropriate framework certification on aspects of responsibility and sustainability.

4. SUNSHINE STANDARDS

Sunshine standards[3] represent guidelines for companies prescribing the way of sharing information with users that, besides shareholders, include various stakeholders. Their use primarily is intended for the United States of America, and it is based on the fact that 90% of large American companies in late 1970s published different forms of reports about sustainable development and responsibility towards the society. This percentage in the early 1980s completely vanished and practically fell to zero. Sunshine standards are structured to complement and expand information of financial reporting to users. The goal is to inform the general public about socially responsible behaviour of the company through standardised sets of information. Standards demand that information should be published for different user groups:

A. Buyers – 23 indicators dealing three main information aspects on: *1) products and services, 2) measures of buyer and regulatory bodies, and 3) socially responsible activities of the company,*

B. Employees – 23 indicators of their interest and achievement regarding: *1) workplace safety, 2) health and security risks, 3) hiring equality, 4) complaints regarding violations of work rights, and 5) pension plans,*

C. Local community – 26 indicators of economic, environmental, and social effect regarding: *1) ownership information, 2) effects on the environment and sustainability (e.g. amount of used material and created waste), 3) effects on public benefits (e.g.. new jobs, building local infrastructure), 4) paid taxes, 5) extraction of resources, 6) influence of the rolling stock at the location of business, 7) value of investments by location for evaluating the influence on local entrepreneurship development, and 8) donations,*

D. Social norms and demands – 5-10 basic indicators which include: *1) respecting and compliance with the Universal Declaration of Human Rights, conventions of the International Labour Organization and United Nations for the elimination of racial discrimination, gender discrimination, and child rights, 2) scope of trade with countries that are under economic sanctions, 3) involvement in international trade and potential definition of the companies benefit in balancing the trade balance, and 4) value of government contracts.*

When using these indicators, companies must assess the needs of a wide range of stakeholders like investors, lenders, and suppliers. Based on that, they can give them additional information that is not stated in the given Sunshine standard frameworks or in the form of public financial reporting, with the goal of satisfying the justified needs of those stakeholders. It is important that, with using these standards, the ideas of reporting on the triple bottom result are supported, while acknowledging the individual need of those they are meant for – stakeholders.

5. CONCLUSION

Using the standards and indicators of non-financial reporting is very important when communicating with investors and buyers, but also in tracking business aspects that have a significant effect on society and its environment. This paper gives an overview of current frameworks of non-financial reporting that have a goal of transparent implementation of social responsibility policies. Using GRI reporting guidelines company provides an overview of the current triple bottom line and a comparative base for its measurement in the future. Using other report frameworks, such as the Sunshine standards, information needs of all stakeholders can be fully acknowledged by forming them into relevant sustainability indicators. All frameworks emphasize the use of transparency principles when publishing social responsibility reports. Taking this into account, the AA1000 standards are highly appropriate for stating medium and high certificates about the published data. By doing so, a consistent implementation of social responsibility policies can be proven on a professional level. Standards enable information benefits for stakeholders because their usage commits the inclusion of environmental and social information into regular business result reporting procedures. The end goal

[3] In an edition of American Stakeholder Alliance

is to improve the analytical base for making business decisions, and to decrease risks tied to complete absence or lack of such information. Non-financial reporting standards are not mutually exclusive, and because of their wide non-financial data coverage, they can complement each other. Their use in practice satisfies a growing need of managers that often want to state other segments of business success, not only the financial one.

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