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EDITORIAL POLICY

Scholaris is a refereed accounting and finance e-journal supported by the Department of Accounting and Corporate Governance. This journal is an instrument for the dissemination and communication of submissions, from Macquarie University Students and other National and International University students, which are of excellent quality and originality. This journal welcomes submissions from undergraduate and postgraduate students within the disciplines of accounting and finance.

Students are taught to listen and observe, critically question concepts and theories, participate in the learning environment, engage in and learn the art of deep thinking and to enjoy the intellectual experience. Academic writing is a creative and dynamic process that assists students in demonstrating their intellectual accomplishment; it is also an invaluable method of discovery and inquiry. Scholaris provides an environment for students to express independent, critical and innovative thinking and promote their research to their peers, academic and commercial communities and industry.
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Foreword

True education is not confined to degrees or even knowledge. True education occurs when one learns from what one sees, feels, and acts. Benjamin Franklin (1706-1790) said: “Tell me and I forget, teach me and I remember. Involve me and I learn.” And learning has no boundary.

I write this Foreword for the first issue of Scholaris with pride and appreciation. This journal was created from the selected work of students of Macquarie University involves our students. For the first issue, students share their thoughts on the matter of sustainability. They critique on the current economic and accounting development in sustainability reporting. They advocate for public awareness, education, and training to support the objectives and principles of sustainability reporting, as keys to moving society toward sustainability. By publishing their work, students enhance our learning with their perspectives and in turn enrich our education system. This issue of Scholaris offers a set of insights from a generation who cares for sustainability.

Scholaris is a journal designed to advance from the potential of our students so that they learn the craft of academic discourse. Scholaris provides opportunities for others to share students’ opinions and developments in a topic of interest. As an education tool, Scholaris speaks to students and academics, practitioners and managers - it is built on the philosophy of learning by involving students in a borderless knowledge sharing platform.

I thank Dr Vicki Baard for her unfailing drive in developing Scholaris. It has moved education at Macquarie University to an excitingly new level and I congratulate Dr Baard and the team of editors for their efforts in this first issue of Scholaris.

Professor Philomena Leung
Head, Department of Accounting and Corporate Governance
23 March 2013. 🌸
A Note from the Guest Editor

It is with great pleasure that I introduce the five papers comprising the inaugural issue of Scholaris. But before outlining the contribution of the papers, I would like to briefly comment on the contribution of Scholaris itself. From time to time the academic sector is accused of ‘dumbing down’ courses and of focusing on assisting weaker students. Conversely, it is suggested that students want nothing more than the maximum grade for the minimum effort. Initiatives like Scholaris prove otherwise. Scholaris provides an opportunity for students of exceptional aptitude and motivation to showcase their work, and provide an important bridge between coursework and research. The students published in this edition were selected from a cohort numbering almost one thousand, and devoted countless hours for no reward other than the satisfaction of publishing rigorous work.

The five papers all engage with the critical issue of sustainability reporting. Yap reviews the operation of the National Greenhouse and Energy scheme and highlights the complexities and issues around the determination of which entities form a consolidated group - a fundamental but under-researched issue with important implications. The remaining four papers provide different insights in relation to corporate sustainability reporting using the Global Reporting Initiative (GRI), a timely review given the imminent release of the Version 4 of the GRI framework. Siew et al. highlight the critical importance of stakeholder engagement, a topic that perhaps most starkly distinguishes financial from sustainability reporting models. Chan et al. continue this theme and also point to the role of assurance, again apposite given the release of the audit-related Australian Water Accounting Standard 2 Exposure Draft. Yeow, Tian and Fan take a more critical stance and call for greater regulation of corporate sustainability reporting, a position that will be applauded my many sustainability reporting academics (including this one!). Finally, Aslami, Aziz and Subramaniam engage with the key issue of national culture and its impact on sustainability standards and reporting, a dimension often absent from sustainability reporting research.

Together, these papers provide fascinating insights into sustainability reporting and demonstrate the capacity of undergraduate students for serious scholarship. Enjoy the collection!

James Hazelton, BEc(Hons), GradDip Env. Studies, CA

Guest Editor: Special Issue on Sustainability 🌿
Australian Organisational Greenhouse Gas Reporting: Boundary Setting Issues

Daniel YAP Li Shen
Macquarie University

Abstract

The purpose of this paper is to examine issues around liable entity determination for greenhouse gas emissions have risen to dominance since the anticipated introduction of a carbon price in Australia. This paper seeks to explore the views of industry pertaining to the use of operational control as the sole boundary setting approach for carbon liability determination under current mandated National Greenhouse and Energy Reporting (NGER) and a proposed emissions trading scheme. The paper draws on submissions of organisations in response to the Carbon Pollution Reduction Scheme (CPRS) green paper as the basis for industry views. Forty submissions were analysed for major, minor or no references to operational control and other issues relating to liable entity determination for emissions were examined. The results indicate notable contention with the sole use of operational control and the high degree of ambiguity faced by organisations when using this approach. There have been resounding calls from industry for greater flexibility in determining the liable entity. The paper highlights, for the first time, industry views and practical issues faced by organisations from the use of operational control for determining carbon liability.

Keywords: Climate change, Greenhouse gas reporting, Environmental accounting, NGERS, Boundary setting.

Submission Classification: Research Paper

1. Introduction

The day has arrived for Australian organisations to be financially liable for their greenhouse gas (GHG) emissions. On 1st July 2012, carbon in Australia was priced at $23 a tonne (Australian Government 2011, s.100) through a much anticipated and debated cap-and-trade emissions trading scheme. Prior to that, constitutional corporations which met one of the thresholds for GHG emissions or energy consumption and production, for instance corporations which emitted 50 kilotonnes or more of carbon dioxide equivalence at the ‘corporate’ level for 2011-12, were only accountable to report on the aforementioned measures under the National Greenhouse and Energy Reporting (NGER) Act 2007 (Department of Climate Change 2008, p.7).
The boundary setting approach prescribed by the NGER Act is significant since liability is determined via thresholds. Depending on how a corporate group defines its boundaries to include or not include subsidiaries, joint ventures and partnerships, the thresholds may or may not be exceeded. This in turn affects the reporting liability of the group and the newly imposed financial liability associated with being above specified thresholds. It is therefore imperative that consolidated GHG accounts provide an accurate picture of a corporate group’s emissions and further scrutiny of boundary setting issues becomes crucial.

Despite the significance of such boundaries, no research to date has explored this issue. Prior literature on carbon accounting and reporting not only locally but internationally is limited as noted by Lodhia and Martin (2011, p.128) who explored submissions made to the NGER policy paper by corporations and other stakeholders. They found that the primary focus of business groups and green groups was policy and political agenda respectively but observed that some issues on the political agenda such as an Australian emissions trading scheme had broader overarching relevance to both communities (p.140).

According to a study by Rankin, Windsor and Wahyuni (2011, p.1061), some industry sectors such as the Australian mining, energy and industrial sectors have a higher propensity to voluntarily report more credible GHG emissions information than other industries suggesting that firms in these industries are more proactive in addressing regulatory, physical and reputational risks associated with climate change so as to advantage the firm and maintain international competitiveness. Nevertheless, accounting for GHG emissions remains a challenge because of uncertainties in estimation models as noted by Milne and Grubnic (2011) and insufficient available information for firms to evaluate risks and comprehend the impact of carbon policies on business as suggested by Nelson et al. (2011).

The present study therefore aims to make a contribution by evaluating the views of organisations from various industry sectors on the current operation of the scheme. The paper is structured as follows - further background and the concept of operational control is provided in section two, method is described in section three, findings discussed in section four, and conclusions, limitations and areas for further research are highlighted in the last section.

2. Operational control

Under the NGER Act, corporations are required to self-assess their liability against four thresholds and report if any of them are met. The thresholds are GHG and energy thresholds at both ‘corporate’ and ‘facility’ levels. For the 2011-12 reporting year, the GHG thresholds are 50 000 t CO₂-e emitted at the ‘corporate’ level and 25 000 t CO₂-e emitted at the ‘facility’ level. The energy thresholds for the same period are 200 TJ and 100 TJ of energy produced or consumed per year at the ‘corporate’ and ‘facility’ levels respectively (Department of Climate Change 2008, p.7).
With regards to GHG thresholds under the NGER System, it is mandatory to quantify both scopes one and two emissions. Scope one refers to direct emissions from activities such as the combustion of fuel while scope two refers to indirect emissions from the consumption of electricity (p.9). Although this paper does not aim to discuss the carbon pricing mechanism detailed within the Clean Energy Act 2011, it is worthwhile to note that liable organisations are obligated to purchase permits for scope one emissions only (Australian Government 2011, s.30).

A corporate group is liable for a facility’s emissions if the controlling corporation or another member of the group has operational control over the facility. Under the NGER System, only one entity can have operational control over a facility at any one time. Section 11 of the NGER Act defines operational control as the authority to introduce and implement operating, health and safety, and environmental policies. Where there is uncertainty as to which entity has operational control over a facility, the entity with the greatest authority to introduce and implement operating and environmental policies will be deemed to have operational control (Australian Government 2007, s.11).


Nevertheless, the general nature of the operational control approach has led to vastly different outcomes in application as observed by researchers including Young (2010, p.91) who noted that some conservative companies took on the reporting obligation so as to control the public reporting of GHG data whilst other companies removed any reporting obligation by obtaining legal advice which clearly deems them without operational control of certain facilities. This regulatory loophole evidently highlights a drawback of the operational control approach and in turn reinforces the need for a clear and unambiguous method of determining the liable entity. Anderson (2010, p.307) also noted the ambiguity of operational control by presenting the example of a facility owner who contracts out the operation of the facility to a third party giving both parties shared authority to implement operating, health and safety, and environmental policies. Anderson further argued the complexity operational control raised when it is applied to unincorporated joint ventures as only one of the joint venturers can be nominated to have operational control over a facility. Taylor and Bowyer (2008) expressed the view that the NGER definition of operational control was “not sufficiently robust” as a determinant of responsibility for an emissions trading scheme as subjective decisions are frequently required to be made about which entity has operational control of a facility and in the case of joint ventures the responsible entity may be nominated on an arbitrary basis. Nelson et al. (2011, p.152) argued that current mandated reporting under the NGER Act is deficient as the focus on scopes one and two emissions along with the narrow definition of operational control
ignores equity-related emissions for entities which the corporate group does not have operational control over. Information about such emissions are however significant for investors as it affects the profitability of a corporation (p.151).

It is therefore apt that alternative approaches to operational control for drawing boundaries such as financial control and equity share ownership that have also been proposed by the Global Reporting Initiative and the Carbon Disclosure Project are examined to find an optimal solution to this challenge.

3. Methodology

The primary sources for this paper were drawn from submissions by organisations in response to the Carbon Pollution Reduction Scheme (CPRS) Green Paper released in July 2008. These submissions were accessed over the internet from either the Department of Climate Change and Energy Efficiency website or those of respective companies, and screened for any references to organisational boundary setting and liable entity definition. Diligence was taken in trying to establish reliable and varied sources to provide a good representation of industry views on the matter. Whilst it would have been preferred if the sources directly referred to operational control within the NGER System, the previously proposed cap-and-trade emissions trading system by the Rudd Government and the NGER System are similar in regards to the application of this boundary setting approach.

The findings in the next section reflect the views of organisations from a broad range of industries, and make reference to preferred position 5.2 outlined below:

CPRS Green Paper Reference 5.2

In general, entities with operational control over covered facilities or activities would be liable for emissions obligations arising from those facilities or activities under the scheme.

a) Where multiple entities exercise a degree of operational control over a covered facility or activity, a single responsible entity would be required to register and meet scheme obligations.

b) For corporations, obligations would be placed on the controlling corporation of a company group where either the controlling corporation or a member of the group has operational control over a covered facility or activity.

c) Unincorporated entities would also be liable under the scheme if they have operational control over a covered facility or activity.

Further consultation and analysis would be undertaken on the definition of liable entities under the scheme in relation to the forestry sector, and upstream fuel suppliers (for example, to align scheme obligations with fuel excise and customs duty liability).

(Australian Government 2008, s.5.2).
4. Findings

In total, forty submissions were examined. Of the forty, seven submissions made major references to preferred position 5.2, six submissions made minor references, and twenty-seven submissions made no reference to this position. Details of the name of organisations and the industry they operate in are provided in the tables below. The results show that a large proportion of organisations from various industries (30% according to this brief survey) find the operational control approach ambiguous or insufficient in itself. This is further evidence that the use and sole use of operational control needs further review and consultation.

Table I

<table>
<thead>
<tr>
<th>Reference to 5.2</th>
<th>Major</th>
<th>Minor</th>
<th>None</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of submissions examined</td>
<td>7</td>
<td>6</td>
<td>27</td>
<td>40</td>
</tr>
</tbody>
</table>

The following organisations made major references to preferred position 5.2 in its submissions:

Table II

<table>
<thead>
<tr>
<th>Organisation(s)</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcoa Australia</td>
<td>Aluminium</td>
</tr>
<tr>
<td>Babcock and Brown (defunct)</td>
<td>Asset management</td>
</tr>
<tr>
<td>BP Australia</td>
<td>Oil and gas</td>
</tr>
<tr>
<td>Corporate Tax Association, PricewaterhouseCoopers</td>
<td>Accounting</td>
</tr>
<tr>
<td>Energy Networks Association</td>
<td>Energy</td>
</tr>
<tr>
<td>Transfield Services, Transfield Services Infrastructure Fund</td>
<td>Infrastructure</td>
</tr>
</tbody>
</table>
The following organisations made minor references to preferred position 5.2 in its submissions:

Table III

<table>
<thead>
<tr>
<th>Organisation(s)</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bureau of Steel Manufacturers in Australia</td>
<td>Iron and steel</td>
</tr>
<tr>
<td>Caltex Australia</td>
<td>Oil and gas</td>
</tr>
<tr>
<td>CSR</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>National Australia Bank</td>
<td>Banking</td>
</tr>
<tr>
<td>Rio Tinto</td>
<td>Mining</td>
</tr>
<tr>
<td>South Australian Local Government Association</td>
<td>Local government</td>
</tr>
</tbody>
</table>

The following organisations made no reference to preferred position 5.2, supported it, or reserved its comment in its submissions:

Table IV

<table>
<thead>
<tr>
<th>Organisation(s)</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asciano</td>
<td>Transportation</td>
</tr>
<tr>
<td>Asia Iron Holdings, Atlas Iron, Gindalbie Metals</td>
<td>Iron ore mining</td>
</tr>
<tr>
<td>Australian Environment and Planning Law Group, Law Council of Australia</td>
<td>Legal</td>
</tr>
<tr>
<td>Australian Financial Markets Association</td>
<td>Financial services</td>
</tr>
<tr>
<td>Australian Indigenous Chamber of Commerce</td>
<td>Representative body</td>
</tr>
<tr>
<td>Australian Institute of Petroleum</td>
<td>Petroleum</td>
</tr>
<tr>
<td>Australian Liquefied Petroleum Gas Association</td>
<td>Petroleum</td>
</tr>
<tr>
<td>Australian Petroleum Production and Exploration Association</td>
<td>Oil and gas</td>
</tr>
<tr>
<td>Australian Sugar Milling Council</td>
<td>Sugar milling</td>
</tr>
<tr>
<td>Business Council of Australia</td>
<td>Representative body</td>
</tr>
<tr>
<td>Consumer Action Law Centre</td>
<td>Legal</td>
</tr>
<tr>
<td>CPA Australia</td>
<td>Accounting</td>
</tr>
<tr>
<td>Greenfleet</td>
<td>Environmental charity</td>
</tr>
<tr>
<td>Growcom</td>
<td>Fruit and vegetable</td>
</tr>
<tr>
<td>Hydro Aluminium Kurri Kurri</td>
<td>Aluminium</td>
</tr>
<tr>
<td>Illawara Coke Company</td>
<td>Merchant coke</td>
</tr>
<tr>
<td>International Power Australia</td>
<td>Energy</td>
</tr>
</tbody>
</table>
4.1 Major References to CPRS 5.2

Of the seven submissions that made major references to preferred position 5.2, most identified specific practical issues that were likely to arise upon implementation of this position and presented arguments that were well-developed and strongly backed by examples. In the case of Babcock and Brown, a proposed alternative solution was also presented and is included in the latter part of this section. The support for use of operational control as the default point of liability ranged from “cautious” in the joint submission by the Energy Supply Association of Australia, National Generators Forum, Energy Retailers Association of Australia, and Australian Pipeline Industry Association to “strong opposition” in Alcoa’s submission.

The most contentious issue with operational control appeared to be in the area of joint ventures and partnerships. Alcoa (2008, pp.32-34) took a strong stand against this general liability referring to it as “illogical” by presenting the case of its Alinta cogeneration plants. Under position 5.2, Alcoa will move from a simple accountability for reporting emissions from these facilities under the NGER scheme to be wholly financially liable for all emissions under a proposed emissions trading scheme. As a result, Alcoa clearly stated its preference for an equity share ownership approach. It argued that it should only be accountable for its share of emissions associated with indirect energy taken as steam from these facilities while Alinta which generates and exports electricity to third parties should be liable for all other emissions and permits. The reasons given by Alcoa to support its argument in relation to its cogeneration plants include the fact that although the company possesses operational control of the plants, the company does not own the plants and a greater proportion of the energy output from these facilities are owned by another corporation. Further, energy taken from the plants by Alcoa has already been counted as a scope two emission under the NGER Act. Alcoa in addition has no ownership or interest in the generation of energy for third parties by Alinta.
Alcoa argued that each equity share holder should be financially liable for its share of emissions but makes an exception for small equity share holders owning less than five or ten percent of a facility. In this scenario, Alcoa agreed that it would be appropriate for the controlling corporation to manage the liability for the smaller share owners but a contractual agreement could be achieved. In terms of reporting liability, Alcoa supports the current onus on controlling corporations to report on the full emissions of a facility (p.34).

BP Australia was another company that noted the myriad of contractual agreements existing within business and joint ventures but specifically in the oil and gas sector. The company called for an immediate and unambiguous establishment of the definition of operational control so that the approach can be tested for viability and that businesses can be identified as being either in or out of scope. The company also asked for greater flexibility during the initial years of an emissions trading scheme in establishing the party with operational control at facilities where several parties have an interest (Proegler 2008, p.9).

The Corporate Tax Association and PriceWaterhouseCoopers also touched on the issue of joint ventures but from a tax perspective. The organisations raised the problems that would face joint ventures with one owner having operational control but various equitable owners having vested interests in the entity, once financial costs are introduced and internalised. The example given was where each joint venture party has existing balance of permits which could be used to offset their portion of the liability or they may wish to take a different approach to managing the cost of their portion of obligations (de Niese & Bryant 2008, p.8).

Besides equity share reporting, the financial control approach also rose in discussions. In the joint response by the Energy Supply Association of Australia, National Generators Forum, Energy Retailers Association of Australia and Australian Pipeline Industry Association, the organisations argued that the possibility to nominate the entity with financial control of a facility with the consent of all relevant stakeholders should be made available (Page et al. 2008, attachment 1 p.10).

In regards to CPRS Green Paper Reference 5.2 (b), the organisations do not support the obligation placed on controlling corporations or cross-subsidy of carbon liabilities across portfolios and argued for the point of liability to be consistently focused at the facility level except where “upstream acquittal is required for practical reasons”. The organisations believed that this obligation on controlling corporations introduces unnecessary new risks for existing investors and will have significant ramifications for project financing and investment structures (p.16). A potential approach proposed by the organisations involves the nomination of the owner or other entity with direct commercial interest as the default point of liability where changes to this can later be made subject to the consent of all relevant stakeholders (p.15).

Transfield Services and Transfield Services Infrastructure Fund (2008, pp.4-5) also recognised potential for the financial control approach to be used. The companies found that operational control may not be appropriate if the liable entity does not have control...
over the amount of emissions, and has limited influence over economic and investment decisions pertaining to lowering emissions or managing associated costs. The companies provided the example of operations and maintenance contractors who usually have operational control but no influence over financial or investment decisions that would affect obligations under the scheme.

Another example given was in the case of electricity generators operating under capacity purchase agreements. The companies argued that the off-taker who is the registered generator on the National Electricity Market, controls dispatch, receives generation revenue and effectively controls the level of emissions of the generator should be the liable entity if existing contractual agreements cannot be modified (p.4).

Energy Networks Association also provided the common example of contractors who are colloquially called operators but in fact have little control over aspects of operations that specifically leads to emissions. The association argued that it is “inappropriate” for regulations to assume that any particular corporation is the controlling corporation. It also cited the unnecessary risks, contractual complexity and inefficient transfer of permits between owners and operators as other impacts of using operational control for cases where this approach is inappropriate. The association argued that because only entities themselves are familiar with respective operational and contractual agreements, entities should be permitted to decide which party is the controlling corporation (Blyth 2008, p.6).

Babcock and Brown too argued for greater flexibility in establishing the point of obligation to promote efficient management of carbon liability and expressed its opposition to a “one size fits all” approach. The company reviewed a wide range of corporate structures including managed funds, incorporated and unincorporated joint ventures, public private partnerships, trusts and parent/subsidiary relationships to arrive at the conclusion that having a single approach to determine liability will create considerable inefficiencies. These inefficiencies are in terms of both compliance cost especially contractual costs and market efficiency, and are due to the existence of complex corporate relationships, distributed ownerships or management structures (Taylor & Bowyer 2008). As such, the company recommended that flexibility to contractually agree to assign liability and nominate a single entity best positioned to manage this liability be given to facilities with distributed ownership or management structures. This is because in the view of Babcock and Brown it may not always be appropriate to aggregate liability to the controlling corporation of the corporate group particularly due to financing and management arrangements (Taylor & Bowyer 2008).

The proposed solution aims to solve the multiple aims of ensuring a responsible party, minimising uncertainty in determining this party, ensuring the party is best placed to manage the liability, limiting contractual complexity and therefore compliance costs, avoiding inefficient transfers of permits between owners and operators or parents and subsidiaries, and avoiding unintended consequences such as a controlling corporation
being fully liable for emissions from a subsidiary facility in a joint venture in which it has a less than 100% interest. The company does however note the need for a regulator to arbitrate if an agreement among the parties could not be reached and in this case, the default point of obligation should rest with the immediate asset owner of the facility (Taylor & Bowyer 2008).

4.2 Minor References to CPRS 5.2

Of the six submissions that made minor references to preferred position 5.2, the comments from organisations were mostly industry specific. The Bureau of Steel Manufacturers in Australia (2008, p.62) called for further clarification on the definition of liable entity particularly in relation to sub-contractors working on large company sites, shipping and mining contractors. National Australia Bank joined in requesting further clarity on operational control boundaries and the assurance framework whilst expressing support for the NGER system as the reporting tool which will underpin an emissions trading scheme (Lucy 2008).

The South Australian Local Government Association (2008) touched on operational control in relation to street lighting and landfill gas management systems. The association argued that local governments have little if not any operational control over street lighting which would represent one of its largest single emission sources when measured as a scope two or three emission source (p.16). On the latter issue, the association made aware that standard operating procedure is for individual businesses to own and operate landfill gas management systems on landfill facilities meaning that landfill facility operators generally do not have operational control over these systems. This may lead to a perverse environmental outcome where landfill operators force the shutdown of gas extraction systems that are “too efficient” so as not to trigger specified thresholds (p.8).

The ambiguity faced when trying to determine the liable entity was highlighted by CSR who raised the question of when facility operators should assume scope one emissions of contractors as their own. This issue is complex for a number of reasons: contractor emissions may or may not be acquitted upstream, contractors often work seasonally, and the high likelihood that neither the facility operator nor the contractor understands the emissions. CSR pointed out the potential for double counting of emissions and urged for a simplified solution for determining the liable entity (Jones 2008, p.12).

Caltex (2008, pp.9-10) touched on points of obligation in the liquid fuel context and expressed its support for self-acquitall by large end users of fuel. The company recommended accounting system modifications to avoid double counting of emissions with the aim of achieving a design outcome of upstream point of obligation coupled with large end user liability. The company however noted the cost and time required for system changes but at the same time highlighted the long-term benefits such as reduction in costs and risks to upstream suppliers from having large customers self-acquit.
Rio Tinto (2008, p.26) argued the need for an emission trading scheme to take into consideration complex ownership and operational structures of facilities and activities. Among the examples given include incorporated and unincorporated joint ventures, facilities owned and operated by different legal entities, mines operated by a contract miner who is unrelated to the mine owner, and tolling arrangements where the facility owner provides a service such as producing electricity on behalf of another legal entity which owns the inputs and outputs to the process.

5. Discussion and Conclusion

This study found a notable degree of contention from industry pertaining to the sole use of operational control as the boundary setting approach for liable entity determination in relation to GHG emissions. The study also highlighted an evident lack of clarity within industry about which entity is liable and presented the recurring view that whilst operational control may be appropriate for GHG reporting, it may not be the optimal approach when financial costs comes into play under an emissions trading scheme. The presence of joint ventures and partnerships further raised the complexity of determining the liable entity giving rise to resounding calls from industry players for greater flexibility in determining the distribution of carbon liability particularly through corporation-derived approaches.

The primary limitation of this study is the lack of in-depth analysis performed on the majority of submissions that made no references to position 5.2. Nevertheless, this study reflects a first step in trying to analyse the issues faced by industry players when attempting to draw GHG boundaries. Further research should be undertaken on the individual corporations in mention so as to ascertain if the involvement of a corporation in joint ventures or partnerships (or lack thereof) is a major factor in explaining opposition or support to the NGER definition of operational control. Further research could also be undertaken to establish the plausible association between certain industries and the likelihood of response to position 5.2 by drawing on the exposure these industries have to carbon pricing.

It is the author’s hope that this paper has successfully highlighted the need for further research and consultation to be conducted in this area of greenhouse gas reporting. Finally, it is anticipated that this paper may provide insights into issues requiring consideration so that more optimal approaches other than the sole use of operational control for drawing organisational boundaries are determined. 🌸
References


About the author

Daniel is an undergraduate student in the final year of his Applied Finance degree at Macquarie University. He is also a Macquarie University International Scholarship holder and a Faculty of Business and Economics Merit Award recipient. He is passionate about managing investments and providing alternative solutions. Through this paper on carbon accounting, he has highlighted his belief in exploring broader contemporary issues impacting the profitability of firms and their shares. For leisure Daniel enjoys travelling and swimming. He presently teaches swimming twice a week at the Macquarie University Sport and Aquatic Centre. 🏊‍♂️
The Dynamic Forces behind Sustainability Reporting

Megan Siew, Claudia Gatto, Chun Yin Lau, Jeremy Li and Ka Man Pang

Macquarie University, Sydney

Abstract

This report analysed the theoretical implication of an academic paper, which focused on the modern phenomenon of companies adopting corporate social responsibility (CSR) reporting despite the voluntary nature and associated high costs thereof. It was concluded that institutional and reputational factors are instrumental in the voluntary application of sustainability reporting and the Global Reporting Initiative (GRI) framework. As a result, there is a major marketing opportunity that should be explored at a greater depth.

This report also evaluated the social and environmental performance of Grave Diggers’ (GD) 2011, under the guidance of the GRI. Overall, their 2011 sustainability report has offered a reasonable and balanced representation of their sustainability measures, and has satisfactorily fulfilled the GRI principles in relation to report content and quality. Nikolaeva and Bicho’s (2010) perception of CSR reporting, as a long-term investment in reputation, can provide insight into the possible motivation of GD’s voluntary adoption and the selection process behind the report content.

Therefore, it is recommended that GD dedicate more marketing resources to sustainability reporting through engagement with stakeholders to understand their corporate CSR and manage their reputation. It is also recommended that GD pursue further strict adherence to the GRI framework to increase comparability and transparency.

Keywords: Global Reporting Initiative, Sustainability Reporting, Voluntary Adoption, Corporate Social Responsibility, Marketing

Submission Classification: Research Paper

1. Introduction

This report will explore the escalating importance of the business issue concerning corporate social responsibility, and the significance of reputational and institutional elements through an analysis of the academic paper on this topic by Nikolaeva and Bicho (2010). To provide a contemporary context, the report will further evaluate and provide recommendations for Grave Diggers’ 2011 sustainability report in respect to the aforementioned factors, as well as the Global Reporting Initiative (GRI).
2. The Global Reporting Initiative

The Global Reporting Initiative (2011) is a non-profit organisation that has developed the leading global sustainability reporting framework used by organisations. The framework allows companies to account for and appraise their sustainability performance and compare their performance to other companies, who have also adopted the GRI framework. The GRI developed the framework as a response to growing public demand for the release of companies' social and environmental performance, in order to provide a more transparent view of companies' operations and activities (Nikolaeva & Bicho 2010). Nikolaeva and Bicho specifically explore the voluntary adoption of the globally renowned GRI framework by companies. As a result, the academic paper discusses the importance of the role of reputational and institutional elements in relation to companies adopting the GRI framework.

3. Analysis of Academic Paper

3.1 The Purpose of This Paper

Corporate Social Responsibility (CSR) academic literature has primarily given attention to the relationship between financial performance and CSR reporting (Nikolaeva & Bicho 2010). However, voluntary adoption provides minimal financial gain. Therefore the question arises concerning what constitutes the true driving force behind CSR reporting. Nikolaeva and Bicho (2010) investigate this highly relevant issue by recognising CSR reporting as a corporate brand communicator and evaluating the institutional pressures on voluntary adoption. The academic paper specifically explores the role of the organisational environment and reputational communicators in the adoption of the GRI framework. As part of a firm's reputation and legitimacy strategies, these factors act as the driving force behind voluntary GRI adoption, even though they are associated with significant costs. This inherently characterises CSR reporting as a marketing initiative, and therefore marketing should seek to play an active role in its process.

3.2 Research hypotheses and their Implications

Nikolaeva and Bicho (2010) used institutional theory as the basis of their investigation, which focuses on the motivations of companies in voluntarily adopting GRI standards and CSR reporting. Regarding institutional theory in this context, Connelly et al. (2010), conveys that organisations can enhance the credibility of their corporate social identity by conforming to emergent industry-wide trends on sustainability reporting.

Firstly, Nikolaeva and Bicho's investigation demonstrates that when highly visible companies adopt CSR reporting, a bandwagon effect is created (Nikolaeva & Bicho 2010). Consequently, the bandwagon effect increases the probability of non-reporting companies
to adopt CSR reporting practices. However, highly innovative companies are often publicly seen as respected leaders, implying they are less likely to imitate their main competitors.

The findings also convey that as the GRI initiative spreads throughout the media the popularity of adopting the GRI framework increases (Nikolaeva & Bicho 2010). This is because the media is a reflection of the contemporary interests of society and it is in the firm's best interest to meet stakeholder expectations. As a result, companies with extensive media exposure are more likely to implement GRI principles as part of their reputation management. The rise in the availability of standardised sustainability reports, which adhere to the GRI framework, will result in increased comparability of CSR practices among companies. However, the pressure of the media declines in power when GRI adoption becomes more common amongst firms, as the rise in adoption numbers weakens its ability to concentrate its pressure on companies.

Moreover, it was found that firms who are actively involved in public communications in relation to their CSR practices are more likely to adopt the GRI framework (Nikolaeva & Bicho 2010). Hence, this provides support towards the use of CSR reporting as a brand management device, which falls under the responsibility of the marketing department.

Lastly, the results illustrate that companies who have previously engaged in CSR activities possess a higher probability to execute GRI principles when communicating their practices to the public (Nikolaeva & Bicho 2010). This can lead to an effective management of their CSR reputation, as the public identifies with the credibility of the GRI. Therefore, it may not be necessary for companies to communicate their practices through GRI reports, which can result in cost savings.

Overall, these findings conclude that the combination of a company's CSR publicity efforts, management of stakeholder expectations and market competition, as well as the media pressures on the company, act as a dynamic driving force behind GRI framework adoption. Therefore, sustainability reporting should be the objective of the marketing department as these factors fall under the realm of public relations and publications. Hence, the area of sustainability reporting is also highly relevant to marketing scholars.

It is important for managers to understand and strategically manage the opportunities and constraints of these institutional influences (Grewal & Dharwadkar 2002). Proper management, through identifying the profitable benefits of these influences, can help a company better manage relationships with key stakeholders and increase the legitimacy of their corporate social identity (Nikolaeva & Bicho 2010). As a result, sustainability reports should not be seen as an expense, but as a long-term investment in a company's intangible assets.

Furthermore, organisations are able to avoid future compulsory CSR reporting regulations if they voluntarily respond to these institutional pressures (Nikolaeva & Bicho 2010). This is because the government and lobby groups would have less incentive to implement compulsory regulations if companies instead take the initiative to voluntarily adopt
sustainability reporting. This would result in company cost savings as they will be able to exercise reporting discretion in comparison to adhering to strict regulations. Hence, highly visible companies should take the lead in adopting the GRI framework, as it will quicken the process of other companies responding to institutional pressures.

Whilst the combination of these institutional pressures create a potent driving force behind voluntary adoption of the GRI framework, it is critical for these pressures to work together and rely on each other (Nikolaeva & Bicho 2010). This can be achieved through the involvement of policy makers and CSR practice advocates. These groups can build connections between different pressures to facilitate collaboration, such as organising events and media campaigns to improve media diffusion and knowledge of CSR reporting amongst companies. Therefore, the institutional pressures should be recognised as value-adding resources, which can enhance the attractiveness of companies adopting sustainability reporting.

Companies that willingly adopt sustainability reporting, as a result of institutional pressures, will most likely allow the same influences to determine the content and the level of sustainability reporting undertaken. Accordingly, companies’ sustainability reporting actions may not be motivated by the desire to uphold ethical practices but to legitimise their corporate social identity.

Overall, these findings have contributed to the knowledge of the contemporary business issue of corporate social responsibility by providing valuable insight into the reputational importance, and the motivations underlying voluntary adoption of CSR reporting by companies.


The critical evaluation was achieved by assessing GD's 2011 Sustainability Report in relation to the GRI principles for defining report content and GRI principles for report quality. The evaluation was further supported by an analysis of Nikolaeva and Bicho's 2010 academic paper, which provided contemporary research on the role of institutional and reputation factors in voluntary adoption of CSR reporting.

4.1 Sustainability strategies

GD (2011) is a global natural commodities company, focusing on the discovery and extraction of natural resources, including energy coal and copper. Consequently, the nature of their operations impacts the environment and the various communities in which the company operates. As a global leader in natural commodities, there would be a high level of stakeholder demand for the transparency of their performance and accountability of their operations, in relation to corporate social responsibility. Hence, the use of the GRI framework would be highly relevant and important to GD and
their stakeholders. Furthermore, GD (2011) has stated that their social and environmental conduct plays a critical part of their strategies. This conduct is highlighted in their annual sustainability reports, which illustrate a level of transparency and institutional openness.

GD’s impact on climate change is an environmental concern that is addressed by their sustainability strategies, as energy is a significant input in their main operations. The company supports the reduction of their climate change impact by the implementation and investment into energy efficient and low greenhouse gas (GHG) emission technologies and operations. GD has reduced their GHG emissions and energy by strategies, such as the use of hydroelectric power at their aluminium smelter and efficient management of truck operating hours at their main operation sites. GD has also sought to find low-carbon alternatives by significantly investing into natural gas, which they believe to be one of the lowest carbon dioxide intense, cleanest burning, fossil fuel.

Furthermore, water usage for GD’s main operations and accessibility to safe-drinking water for communities within which GD operates are ongoing environmental concerns addressed by GD (Grave Diggers 2011, p. 15). GD has increased their focus on addressing water usage at their material sites by implementing water management plans for operations, including controls to reduce the impact of water use and discharge. These material sites are identified as sites where water usage for operations exceeds 3,000 mega-litres per annum. GD has illustrated an active involvement in various water management research and projects, such as the CDP Water Disclosure Project. Their research investment exceeds the action taken to physically reduce water usage and maintain community water quality. This could be attributed to the lack of international water accounting standards that could help GD address water quantity and quality concerns.

GD’s strategies also focus on the organisation’s social sustainability conduct. For instance, the company provides altruistic opportunities for employees in helping surrounding communities through a program, where the charitable efforts of employees are financially matched by the company (Grave Diggers 2011, p. 24).

The welfare of stakeholders, particularly in relation to the externalities of operations, is also addressed through stakeholder engagement management plans. These primarily involve consulting stakeholders on their specific needs as well as facilitating the social inclusion of disadvantaged and vulnerable groups. Furthermore, there is strategic community development in which business operations are present (Grave Diggers 2011, p. 2). Moreover, the contractors and suppliers also must adhere to human rights and labour rights through the GD’s Code of Business Conduct and Health, Safety, Environment and Community Group Level Documents (Grave Diggers 2011, p. 2). Customers are also engaged with various programs designed to facilitate social and environmental performance. The existence of the sustainability report in itself can be argued as a response to customer demand for CSR. However, there seems to no programs where communication between customers and GD can be facilitated.
The company has also ensured that the global community is engaged through the establishment of an international forum, where communications are freely opened with Non-Government Organisations (NGOs). Furthermore, GD is also a member of the Responsible Jewellery Council, Steel Stewardship Forum and Responsible Aluminium, which reflects their proactive role in resource stewardship (Grave Diggers 2011, p. 3).

GD has demonstrated clear engagement with stakeholders, such as employees, suppliers, contractors and communities, in relation to CSR practices. However, many of GD's approach require stakeholders to strictly adhere to their sustainability policies. This rigid regulatory process means that stakeholders cannot negotiate the terms of the strategies, which have an impact on them. Therefore, the potential of these strategies to positively contribute to the social and environmental concerns of stakeholders can be limited by the lack of their involvement in the decision-making process of these strategies.

GD’s sustainability strategies are integrated into their business culture, policies and operations. Accordingly, the company does not have a stand-alone sustainability strategy, which is generally a sign of a company being more serious about CSR as a whole.

4.2 Application of the GRI Principles

Grave Diggers’ Sustainability report (2011) comprehensively illustrates detailed information of its sustainable operations. However, the quality of the information and whether the information provides a balanced and reasonable representation of GD’s social and environmental performance needs to be determined within the credible GRI framework. Therefore, the GRI framework can provide transparency of GD’s operations that have an impact on the environment, economy and stakeholders, within a reliable framework. The framework also plays a fundamental role in sustainable investment decisions and the management of stakeholder and relevant market relationships. As a result, GD’s adherence to the GRI framework can provide valuable information for the decision-making of external relevant parties.
4.2.1 Evaluation in accordance to GRI principles for defining report content

The GRI principles for defining report content are illustrated in figure 1.

*Figure 1 GRI Principles for defining report content*

![Options for Reporting](image)

*Source: Global Reporting Initiative 2011, p. 7*

Corporate social responsibility is a broad and vague definition, which allows organisations to report on a diverse range of topics and performances. Therefore, in order to develop a balanced and practical representation of an organisation’s sustainability performances, boundaries and principles on appropriate content and quality need to be defined (Global Reporting Initiative 2011, p. 7).

The materiality level of a topic is based on the significance in influencing stakeholder decisions and reflection of the environmental, social and economic impact of an organisation (Global Reporting Initiative 2011, p. 7). GD’s sustainability report approaches this principle through a three-step materiality process of identifying internal risks, investor and shareholder demands, media coverage and issues raised by NGOs (as illustrated in figure 1). These issues are thereafter prioritised in order of significance, where they are then reviewed and feedback is gathered (Grave Diggers 2011, p. 5). This method is simplistic and consistent and provides an effective streamline process of determining the specific areas that are material to the organisation. These topics are emphasised in the sustainability report by GD’s focus on their respective performance. GD’s materiality step process is illustrated below in figure 2.
The report also importantly identifies key stakeholders as groups that are either affected, interested or possess reasonable influence in the organisation. Their Community Group Level Document (Grave Diggers 2011, p. 18) establishes engagement with stakeholders through stakeholder management plans. Customary rights of landowners are also identified before operations commence. It appears that the organisation has made a substantial effort, particularly through the Community Group Level Document, to provide a systematic process to identify and engage stakeholders as well as manage their expectations.

However, these reporting principles and the overall performance measures must be presented in the wider context of sustainability to illustrate their contribution to sustainable development (Global Reporting Initiative 2011, p. 11). The organisation applies this principle through covering their reduced impact on the advancement of climate change, water accounting, land management and improving biodiversity policies. GD visually represents this data through performance graphs and figures. An example is illustrated in figure 3 below.
Lastly, the report is comprehensive in terms of coverage and thereby reasonably adheres to the principle of completeness. The content of the report reflect significant economic, social and environmental impact through their three-step materiality process which are further expanded upon in the rest of the report and appendices. The report is also easily accessible via their website and is presented in a simple yet logical structure. The comprehensive content detailed in the appendices for performance data further allows stakeholders to easily analyse the performance of the organisation.

The sustainability report comprehensively covers the GRI principles for defining report content. The content is relevant to the organisation’s experience and adequately caters for the expectations of stakeholders, which can facilitate the decision-making of relevant stakeholders. However, the report could provide finer detail about the processes underlying their sustainability practices.
4.2.2 Evaluation in accordance to GRI principles for report quality

The GRI principles for report quality are illustrated in figure 4 below.

*Figure 4 GRI Principles for ensuring report quality*

Source: Global Reporting Initiative 2011, p. 14

Principles governing report quality is equally as important as the content. The GRI Framework principles for ensuring report quality aims to provide adequate transparency and calibre of information for stakeholders to make informed decisions (Global Reporting Initiative 2011, p. 13).

The sustainability report reflects upon both negative and positive areas of its performance, which demonstrates transparency and balance. The report also discloses both favourable topics (for example the dollar-for-dollar charity program), as well as unfavourable topics (for example the exposure risk of employees to HID/AIDS) (Grave Diggers 2011, pp. 2-7). GD also addresses their negative impact on issues such as water consumption and climate change (Grave Diggers 2011, pp. 12-14). This exposure of negative subject areas adds credibility and neutrality to the report.

It is clear that there has been substantial investment into the design of the sustainability report. The report is presented in a coherent, organised and concise manner which provides for a high level of clarity. There is a logical flow from their sustainability approach to their focus areas and performance measures. There is no use of jargon terminology and the visual representation of much of the data provides an easily
understandable report for stakeholders. However, the usability and accessibility of this report can be difficult for non-English speaking stakeholders or stakeholders who do not have access to online networks.

Reporting quality is also characterised by the timeliness and accuracy of the data presented as this allows stakeholders to make informed decisions in a timely manner. GD is successful in reporting in a timely fashion with the publication of annual sustainability reports each September since 2005 (Grave Diggers 2012). Data is also accurately determined with data measurements completed by reliable sources, such as the World Resources Institute (Grave Diggers 2011, p. 13).

Furthermore, the content of the report is compiled in a consistent, comparable manner which is vital to evaluating performance. The presentation of the content effectively allows stakeholders to easily examine the alterations in the organisation performance as time elapses through various graphs and figures that show year-to-year progress. An example is illustrated in figure 3. However, the report does not disclose the method used to calculate data and therefore whether there is consistency in method from year-to-year is also questionable. There is also no information from the sustainability report to state the basis on which the sustainability targets were set. Consequently, the validity and consistency of the targets cannot be accurately measured.

The confidence of stakeholders in relying on the sustainability report to make informed decisions is an essential principle of the GRI. GD has appropriately addressed this principle through an independent, external examination of the report by an auditing firm. The audit firm provided GD with a level A+ rating for their adherence to the GRI (Grave Diggers 2011, p.46). As a result, this supports the credibility of the report to stakeholders and the legitimacy of GD’s corporate social identity.

4.3 GRI Performance Indicators

The GRI developed a “triple bottom line” basis for their sustainability reporting guidelines (Nikolaeva & Bicho 2010). The “triple bottom line” consists of social performance, economic performance and environmental performance. These performance measures are further subdivided into specific indicators. For the purpose of this critical evaluation, the indicator for social performance (labour practices and decent work) and the indicator for environmental have been selected to be applied to GD’s sustainability report. The nature of GD’s main operations involves natural resource extraction and the management of labour, which makes these social and environmental indicators highly relevant to GD. This multiple aspect to reporting sustainability performance provides for a comprehensive view of sustainability practices.
4.3.1 GRI indicator: Environmental performance

GD has only provided positive results of performance against their targets. Carbon based energy intensity were lowered by 17% against a target of 13%. GHG emission intensity was also lowered by 18% against a target of 6%. GD invested US$325 million to support the implementation of energy efficient technologies, which exceed the initial target of US$300 million. Consequently, GD did not disclose results where targets were not met. Although the corporation lacks water management targets, GD is committed to establish these targets in mid 2012.

GD demonstrates key organisational successes in their report. These successes included the reductions in energy consumption and greenhouse gas emission, implementation of energy efficiency measures, improvement in water use index and reductions in use of groundwater. The sustainability report has also demonstrated the success of implementing sustainability strategies; by acquiring hydroelectric power, examining pipe-works to reduce diesel particulate emissions and implementing water management plans, GD is able to implement their strategy of managing and addressing negative impact to the environment.

GD has also provided a comprehensive review of organisational risks and opportunities. It has identified the carbon tax as a risk of increasing operating costs which may impact their operations via their customers. GD has further identified opportunities associated with carbon pricing. Cost advantage can be achieved for low carbon energy sources which may result in the increase of market size for natural gas and uranium products.

GD has also identified the risk of climate change, including the loss of business continuity, production interruption and damaged facilities (Grave Diggers 2011, p. 12). Opportunities that GD has identified within the impact of climate change is that by addressing climate change it can receive increased support from stakeholders and social responsible investors.

4.3.2 GRI indicator: Social performance: labour practices and decent work

This performance indicator has demonstrated the results of performance against targets. The total recordable injury frequency for FY2011 improved by 6% to five million hours; however, this improvement did not meet the five-year target of 3.7. Fatalities target of zero was not met during 2011 with two fatalities occurring. The indicator has also demonstrated key organisational successes, such as a 20% reduction in number of employees exposed to carcinogens, implementing local employment policies, providing an average of 62 hours of training per employee and graduate development. Shortcomings were also discussed within the report with cases of musculoskeletal illness having increased significantly.

However, the social performance GRI indicator did not mention the identification of organisational risks, but the organisation has compiled a comprehensive report of occupational health risks faced by employees. The successful identification of organisational opportunities when employing and developing employees has occurred within the report.
The Dynamic Forces behind Sustainability Reporting

GD demonstrates adequate implementation of sustainability strategies through their hierarchy of controls and work practices, control harmful exposures at their source, conducting programs to assist employees and supporting foundations for graduates programs.

The overall content, quality and standard disclosures of the report meet the requirements of the GRI framework. The adherence to the various principles demanded by the framework requires a high level of resources invested in the development of the sustainable report. The adherence to the principles, despite significant costs, may indicate the GD is motivated by other factors. Nikolaeva and Bicho (2010) have presented possible motivations including publicity, competitive and media pressures. This therefore reaffirms the idea that sustainability reporting should be the responsibility of the marketing department.

5. Relevancy of the academic paper to Grave Diggers’ sustainability report

Nikolaeva and Bicho’s paper provides insight into Grave Diggers’ motivations to voluntarily adopt sustainability reporting, their report content selection criteria, and the extent to which they adhere to the GRI framework.

The findings of the academic paper offer several reasons that can explain GD’s decision to voluntarily adopt sustainability reporting and the GRI framework (Nikolaeva & Bicho 2010). Firstly, GD’s sustainability report may be a response to media pressures to adopt CSR practices. CSR has become a prevalent concern of society and, since the media is seen as a reflection of society’s interest, has become a focus of the media. Voluntarily adopting the GRI framework may also help GD to avoid future compulsory CSR reporting regulations. Nikolaeva and Bicho (2010) also believe that a benchmarking opportunity for companies exists. The preparation of sustainability reports can allow GD to perceive their CSR position compared to their main competitors.

Furthermore, the academic paper can provide insight into the report content and the extent to which GD has adopted GRI principles. Nikolaeva and Bicho (2010) convey the significance of the marketing department to take the lead in the publication of CSR reports. Therefore, the selection criteria for the report content and the discretionary application of GRI principles may be a part of their reputation management. The sustainability report could also be an effort to communicate their CSR practices to increase the legitimacy of their corporate social identity to stakeholders. It is also the opportunity for GD to strategically manage the opportunities and constraints of the institutional factors (CSR publicity efforts, market competition and media pressure). Hence, GD’s reputation has the potential to be enhanced via the effective management of the sustainability report content.
6. Significance of the GRI Framework to Grave Digger’s sustainability report

The GRI represents the ability of society to demand accountability and transparency of companies’ CSR practices, especially the availability of standardised information that can be used for benchmarking and ranking purposes (Nikolaeva & Bicho 2010). Hence, the GRI framework presents GD with the opportunity to evaluate its social and environmental position in relation to relevant competitors. This initiative also supports the benchmarking opportunity that was identified by Nikolaeva and Bicho.

Furthermore, the widespread credibility of the GRI is a reflection of the rising stakeholder expectations for companies to demonstrate environmental and social accountability and transparency. Therefore, the voluntary dissemination of CSR practices can assist GD’s brand management and CSR publicity efforts. GD’s adherence and support of the GRI framework can enhance the legitimacy of their corporate social identity, which may result in a competitive advantage.

However, in order for the GRI to improve the level of CSR reporting adoption and adherence to the GRI framework, the GRI must evaluate the motivations of companies in relation to CSR reporting. This is because strategies that inform companies of the benefits of CSR reporting can be effective in attracting them to adopt the GRI framework. Although, it should be noted that the GRI does not wish to contend with existing organisational structures, but instead receive their support and the opportunity for collaboration (Nikolaeva & Bicho 2010).

Interestingly, the GRI proves to be complimentary to the academic paper. On the one hand, the academic paper provides an internal point of view to CSR reporting by exploring the motivations of companies to adopt sustainability reporting and identifying marketing as the appropriate makers of the report. Conversely, the GRI framework presents an external point of view by providing principles that are important to support sustainable development, transparency and stakeholders’ decisions and expectations. Hence, the knowledge derived from the academic paper and the GRI framework provides a comprehensive critical evaluation of GD’s sustainability report.

7. Recommendations for Grave Diggers’ sustainability report

The academic paper conveys that the aim of adopting CSR reporting is to enhance the legitimacy of a companies’ corporate social identity and to be used as a brand management tool (Nikolaeva & Bicho 2010). GD’s vague disclosure of the methodology behind measuring their environmental and social performance and operations may be a result of the management of their brand and the intention to project a groomed CSR public image. Therefore, it is recommended that GD disclose this information to the extent to which relevant stakeholders can use the information for decision-making. This recommendation will also be aligned with the key objective of the GRI (2011) framework to promote the comparability, transparency and adoption of CSR reporting.
Important, marketing should dedicate more resources to their sustainability reports as it has predominantly focused on their revenue line (Grave Diggers 2012). It is recommended that marketing take a more active role in understanding the social expectations of stakeholders, particularly customers, by opening up a communication avenue.

Finally, it is recommended that further strict adherence to the GRI follow in future reports, such as disclosure of future challenges reported by peers and competitors (Global Reporting Initiative 2011, p. 9). This would allow for benchmarking as there is seldom comparable information with competitors, which can help identify weaknesses and improvements (Horngren et al. 2011, p. 870).

8. Conclusion

The academic paper demonstrated the importance of institutional and reputational factors in the adoption of the GRI, such as media pressures for transparency and the management of CSR publicity efforts. Therefore, the paper encourages the marketing department of a company to play an active role in the development of CSR reports. The academic paper also contributes a valuable marketing perception to the evaluation of GD's 2011 sustainability report. GD's report has also illustrated a comprehensive adherence to the GRI principles when evaluated against the GRI framework. Nevertheless, it is recommended that marketing resources are invested to further develop future sustainability reports and that GRI principles are more closely followed.

References


**About the Authors**

I’m **Jonathon Lau**, an enthusiastic student from Hong Kong, currently studying my last year of Bachelor of Commerce major in Professional Accounting at Macquarie University. I have an unquenchable thirst for knowledge. I engage in proactive behaviour and active thinking which defines my attitude: there’s always room for improvement and I always thoroughly consider advice given to me.

I am **Jeremy Li** and I was born in Sydney in 1992. I have a passion for all types of music and I enjoy playing the piano. In 2008, I was awarded the Diploma Associate in Music, Australia (AMusA) in the subject of Piano. I am particularly proud of my achievements in music as they are the results of consistent hard work throughout many years. I finished high school in 2009 and I am currently studying Bachelor of Applied Finance with Bachelor of Commerce - Professional Accounting at Macquarie University. My hobbies include watching and playing sports, especially swimming and tennis. My goal is to one day contribute and make a positive impact to the world, especially towards less fortunate human beings.

This is **Ka Man Pang**, an international student from Hong Kong, currently studying last semester of Bachelor of Commerce-Professional Accounting. It is an incredible opportunity to have this report completed. Personally, I treasure every chance of learning and developing as all-round person through critical thinking and analysis.

I am **Megan Siew** an undergraduate Accounting / Business Administration student with a keen interest in the promotion of corporate social responsibility. Hence, the opportunity to research the topic of sustainability reporting has been exciting and enlightening. In the future, I would also love to contribute to a dynamic auditing team. 🌸
Measuring and Reporting Sustainability: The case of StärkeAusdauer AG

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ABSTRACT

The aim of this research report is to address the contextual inadequacy of corporate reporting, specifically the need to extend beyond the traditional scope of financial measures and shift towards the measurement and disclosure of social impacts and environmental externalities. This report examines the notion of sustainable development and the application of the GRI guidelines as a progressive framework in achieving a greater level of corporate accountability. The case of StärkeAusdauer AG has been used to illustrate how organisations are currently adopting sustainable business practices in order to ensure their continuing existence. However the ideologies embedded within such a concept have revealed that upon the vague conceptualisation of the term ‘sustainability’, organisations have concealed unsustainable corporate behavior by legitimizing their actions and decisions. These findings suggest that in order to eliminate such reporting bias, there is an underlying need for sustainability reports to obtain a certain degree of credibility through the governance of more stringent and mandating regulations. Essentially, this report emphasises that in order for the sustainability framework to gain strength and momentum in its current application, an absolute and consistent definition of what is meant by the term ‘sustainability’ must be clearly ascertained and uniformly accepted.

Keywords: Sustainable development; Global Reporting Initiative (GRI); legitimacy; corporate accountability.

Submission classification: Research Paper

1. Introduction

The conceptualisation of sustainability has emphasised a timely relevance with regards to the way organisations are currently held accountable for their impacts and the futuristic implications that underlie their business activities. In order to create value and maintain a competitive advantage, it appears that organisations need to incorporate sustainable development (SD) as an integral part of their corporate and business strategies. The paper entitled “GRI and the camouflaging of corporate unsustainability” by Moneva, et al., (2006) explores the ideology of SD and its contextual application within the Global Reporting Initiative (GRI) guidelines. This paper has highlighted the need for integrated reporting...
especially with respect to the way GRI is being applied in evaluating the social and environmental forms of accountability. It concentrates on the Triple Bottom Line (TBL) approach to reporting and how we can narrow the discrepancies arising from corporate performance and their consequential ramifications. This report will examine the extent to which the GRI guidelines have been effective in their integration alongside traditional corporate reporting. A leading European automotive manufacturer, StärkeAusdauer AG, will be used to exemplify how their integrated TBL approach to sustainable reporting in accordance with the GRI guidelines has affected their overall perceived value and accountability.


2.1 Issues Investigated

The fundamental issue investigated by Moneva, et al., (2006) is the obstacles towards strengthening sustainability within the GRI guidelines and how the conceptual vagueness of the term ‘sustainable development’ has resulted in inadequate accountability, especially the disclosure between corporate performance and corporate impacts. The vagueness in terminology has other implications for issues such as the scope of sustainable measurability and the extent of social accountability on reporting. The 1987 Brundtland Report defines ‘sustainable development’ as “development that meets the needs of the present without compromising the needs of the future” (United Nations, 1987, p.37). Evidence suggests that the use of the TBL approach is biased towards the environmental pillar. Consequently, different entities are able to act opportunistically by misappropriating the conceptual vagueness. This has undoubtedly widened the reporting gap to which organisations are expected to provide relevant disclosures concerning business activities and their consequential impacts.

2.2 Motivation for Conducting the Research

The motivation towards such a research project is to identify the limitations of the GRI guidelines, how the ideologies embedded within the TBL notion have been largely ignored, and handled in a non-integrated manner within the GRI’s conceptualisation of ‘sustainable development’. The underlying theoretical rationale for the research accentuates the imperative need to have a definitive, universal and consistent definition of SD in providing guidance for practical implementation. The practical rationale relates to how organisations utilize the GRI guidelines and how GRI has defined the concept. In order for the GRI to be effective, the scope of SD must be specified to the extent that it enables corporate accountability on all levels. Therefore, by investigating the issue, the researchers have strengthened their arguments for institutional and administrative reforms supporting the sustainability reporting system; it needs to be enforced by the law to have a more stringent effect on disciplining unsustainable corporate perpetrators.
2.3 Examining the Theoretical Concepts

The concepts of weak\(^1\) and strong\(^2\) sustainability proposed by Gray in 1996 were fundamental in developing the analysis as it offered a form of criteria for which organisations could evaluate the extent (or position) to which they engaged in SD on a continuum of possibilities. As articulated in the Brundtland Report 1987, the term SD is an evolutionary process as opposed to a fixed state. The sustainability debate transpired some questions that businesses and institutions should consider as they develop sustainable practices and integrate them into their strategies such as: the interaction between humans and their natural environment, the discrepancy between the present and the sustainable future, the degree of change necessary and concepts of eco-justice. These propositions are not testable, but provide guidelines to critically evaluate how GRI methodology has contributed to SD from the weak to strong position. For instance, within the economic pillar, the full cost accounting model is not included which condemns the possibility of life-cycle analysis in the environmental pillar, which is indicative of weak sustainability. However, by using life-cycle analysis, organisations can attain precision in the measurement of sustainable progression by considering processes at each stage of the product’s life. This would essentially integrate sustainability throughout the value chain and thereby shift towards a stronger position of SD. Moreover, by allowing the weak approach of incremental implementation of GRI guidelines, there will be a degree of biasness as reporters can intentionally select which pillar and what guidelines to focus on. This has created opportunities for organisations to disclose subjective information which depicts them in good light and has signified that some organisations which claim to be GRI reporters do not actually behave in a responsible manner (Moneva, et al., 2006). Nevertheless, there have been improvements within the current economic aspect, such as the introduction of economic performance-based indictors which are based on the value-added statement, and could manoeuvre from the weak to strong position of SD.

2.4 Research Findings

The findings revealed that critical deficiencies in the concept of SD existed within the GRI guidelines, indicating that there would be measurability and reporting issues. Additionally, accountability would be jeopardized because of these shortfalls. It would be difficult for businesses to approach SD without a conceptually consistent definition, biased and simplified TBL indicators and the absence of verification and external assurance. Therefore, businesses are given the opportunity to use GRI methodology as a way to conceal the real “unsustainability” of their practices. This has imposed severe implications on the purpose of GRI guidelines as they may not necessarily promote accountability and contribute to SD, but rather legitimize unsustainable behaviour.

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1 Weak sustainability leaves the prevailing way of economic development unquestioned and regards economic progress as the dominant goal of human beings, with social and environmental dimensions being manageable to support economic growth.

2 Strong sustainability argues for a radical change of our ways of life in order to pursue a more sustainable future that strikes a balance between the 3 dimensions- economic, environmental and social.
2.5 Implications Derived from the Findings

There are several implications that may be derived from the research. Although many of these barriers cannot be instantaneously resolved in the short run, advancements can be made including the adoption and application of full cost accounting and life-cycle analysis which aims to expand our overall accountability, by including social and environmental externalities in the price of their products/services. StärkeAusdauer has incorporated life-cycle assessments as part of their approach to sustainability reporting. They have analysed the product life-cycle of vehicles from the initial ideas and designs through to the technical development and production, use and subsequent recycling. This has enabled StärkeAusdauer to identify areas within the product lifecycle which require further improvement. Moreover, organisations which exert a predominant influence should recognise the current gaps in disclosure and measurement to effectively amend the current sustainability framework. Although in practice it is difficult to accommodate for the wider audience of potential stakeholders, there is an implicit social contract which exists and reporters are expected to adhere and discharge their responsibilities by expanding the reporting scope to better reflect the impacts of their business activities. As a powerful advocate of SD, GRI recognises the need for an integrated reporting approach which entails a definitive measurement scheme. Such a measurement scheme would signify a way of monitoring and controlling an organisation’s efforts in achieving corporate and social accountability.

2.6 GRI Unsustainability and Global Organisations

The legitimization of unsustainable behaviour has revealed that the sustainability reports prepared by global organizations may require users to read between the lines and not accept all information communicated to them at face value. The extent of subjectivity incorporated into sustainability reports may act as a shield, concealing unsustainable corporate practices and thereby imposing a question on the reliability and credibility of such reports prepared. The sustainability report of the European automotive company StärkeAusdauer AG depicts a global organisation who has defied the unethical legitimization of unsustainable corporate behaviour. StärkeAusdauer AG has strategically incorporated GRI guidelines to reflect the overall direct and indirect impacts and communicate this to the interested stakeholders. Although StärkeAusdauer has been awarded an A+ GRI rating for their sustainability report in demonstrating their commitment towards ensuring transparency and accountability for their products, it is evident that an imbalance still exists between the disclosure of positive and negative impacts. This has been a major criticism of the GRI guidelines and the framework for sustainable reporting.

StärkeAusdauer AG is one of Europe's renowned automotive manufacturers who have emerged as one of the world's most influential corporate leaders. As they have acknowledged the inevitable changing context and incorporated many sustainable practices into their manufacturing processes, they have thus continued to strengthen their global leadership. Their 2010 sustainability report reflects the more integrated approach to sustainability as it is sub-divided into four parts consisting of the StärkeAusdauer strategy supplemented by the three pillars of TBL reporting. The StärkeAusdauer group aims to be an economic and ecologic leader by 2018.

3.1 Sustainability Strategy of StärkeAusdauer AG

The StärkeAusdauer group pursues a product differentiation strategy in order to achieve their dichotomous goals of being an economic and ecologic leader by 2018. The concept of sustainability is fundamental to their corporate strategy as StärkeAusdauer focuses on product innovation in order to develop the most economic and ecologically-friendly cars. For example, innovative environmental technologies is key towards developing some of their newer prototypes such as the SAESC01, also referred to as the “Envirosaver Car”, which runs on 0.9 litres per 100 kilometres and equates to 24g/km of carbon-dioxide equivalents. Such a model uses exemplary aerodynamics, lightweight metals and a hybrid system and is one of many vehicles under StärkeAusdauer’s ‘EcoDrive’ brands. StärkeAusdauer devotes much of their resources in “green mobility” projects which are tailored towards achieving their ecological commitment in supplying the cleanest and most economical cars on the market and thereby creating a benchmark for others to follow.

3.2 StärkeAusdauer Profile and Management Approach

The section regarding the organisation profile has clearly included all ten elements stipulated within the GRI guidelines for standard disclosures. The management approach has been incorporated into each performance indicator, which has been subcategorised into the TBL aspects of economic, environmental and social. Each indicator is further structured by highlighting the material issues concerned within the performance context and how it has affected StärkeAusdauer’s various stakeholders. As part of StärkeAusdauer’s management approach to sustainability, they have undertaken stakeholder inclusiveness by considering the spectrum of value chain sustainability. Within this, they have recognised the importance of customer and supplier relations as well as distribution entities. StärkeAusdauer has detailed their core emphasis in their ‘materiality matrix’, which covers the three elements of TBL reporting of which their projects and operations are based on. For example, StärkeAusdauer measures customer satisfaction on three levels: within the purchasing process, product satisfaction and in-shop satisfaction. They impose strict criteria on their suppliers for the systematic procurement of raw materials, especially...
with regards to extraction from countries of political instability. StärkeAusdauer’s distribution emphasises ‘green logistics’, which entails efficiency maximisation of transport, containment and shipment.

### 3.3 GRI and StärkeAusdauer

In order to ensure the credibility of their sustainability report, StärkeAusdauer has disclosed information within the framework of the GRI guidelines. Within this scope, compliance with principles for defining report content is stipulated under concepts of materiality, stakeholder inclusiveness, sustainability context and completeness (GRI, 2011). In defining materiality relevance, StärkeAusdauer initiates a filtering process which prioritises issues by utilising both internal discussions with cross-functional teams and external sources such as international studies in politics and financial markets and papers published by NGOs. Internal steering bodies such as Corporate Strategies Group and external stakeholders such as the European Nature and Biodiversity Conservation Union also assess the materiality of issues on the agenda. When applying the materiality principle, StärkeAusdauer provides information on 17 of the 28 core environmental indicators, but only provides complete information on ten of the 17 indicators previously identified.

Of the 14 core indicators for Labour and decent work practices, complete information was disclosed on four indicators, with partial information reported on another five indicators. Although StärkeAusdauer provides explanations on unreported indicators, increased transparency is necessary. StärkeAusdauer’s sustainability strategy recognises the importance of managing the social contract and the obligations attached by balancing the specific interests of various stakeholders such as: customers, shareholders and employees. StärkeAusdauer is obliged to provide transparent information to those who are concerned and/or who rely on it for decision making. It is thus essential to comprehensively document stakeholder involvement in order for the report to be credible.

As a global organisation, StärkeAusdauer’s sustainability context also extends to the worldwide context. It distinguishes between issues that impact locally or regionally such as community development and global issues such as climate change. Also, having realised the risk factors associated with different geographical contexts, StärkeAusdauer seeks to undertake necessary countermeasures. For example, the extraction of raw materials is thoroughly assessed to ensure that politically volatile nations do not affect the supply chain. StärkeAusdauer’s approach to sustainability has considered both upstream and downstream activities within the value chain, however, there are various performance indicators regarding certain stakeholders which are not fully disclosed. As reporting completeness refers to capturing performance in its entirety, it is evident that StärkeAusdauer has not achieved full disclosure, but ‘sufficient’ disclosure.
The GRI compliance principles for ensuring report quality is articulated within the concepts of balance, clarity, accuracy, timeliness, comparability and reliability (GRI, 2011). The overall presentation of StärkeAusdauer’s 2010 sustainability report has provided an unbiased view of the group’s performance by reporting both favourable and unfavourable results. StärkeAusdauer has received awards for their achievement in Corporate Social Responsibility, however on the other hand, it has been challenged by NGOs, particularly Greenpeace, for “Environmental detriment and Global Warming in Europe” and ‘misleading advertising’. They have been accused of undermining some of the major environmental reforms in the EU as well as “green washing”, which diverts the attention away from their poor environmental performance and compensates it with the development of environmentally efficient prototype models that does not actually enter into the mass production stage (Greenpeace, 2011). This unsustainable practice promulgated the Greenpeace protest and demonstrates how a well-defined concept of balanced disclosure within the GRI guidelines could promote a higher degree of corporate accountability. With regards to clarity, information is presented in an understandable and usable manner for stakeholders to make an informed decision. There are various tables, graphs and links which enhance understandability, however other aspects such as stakeholder involvement has not been documented in a comprehensive manner. In terms of accuracy, StärkeAusdauer presents a distinct link between both qualitative and quantitative measures for all three TBL aspects. Nevertheless, the underlying assumptions, techniques and methodologies employed to generate particular estimates require further clarification. With regards to timeliness, they have produced reports for their consolidated group every two years since 2006; however, this has changed to annual reporting as of 2011. StärkeAusdauer’s 2010 sustainability report covers the period from 15th June 2009 to 31st March 2011 and continues to produce sustainability reports for the forthcoming years. The report is constantly updated as they recognise that changes in development, designs and technical specifications may be made at any time. Consequently, information within the report may depict some variances from reality. In order to facilitate comparability over time, StärkeAusdauer maintains consistency with the methods used to calculate data and the layout of the report. They have also ensured comparability within prior year’s benchmarks and performances. StärkeAusdauer ensures explanations for significant deviations in their performances between years as a result of changes to processes or external impacts which have affected their operations. StärkeAusdauer’s sustainability report has attained two sources of external verification which recognises its credibility and reliability. The report has been checked for content and graded an A+ application level by the GRI. Additionally, they have attained moderate assurance by PriceWaterhouseCoopers for their disclosures. Nevertheless, the application level awarded should be interpreted with caution as some GRI reporters do not actually behave responsibly and use the GRI guidelines to legitimize their organisational impacts (Moneva, et al., 2006).
3.4 Aspects of Performance in the Sustainability Report

The 2010 StärkeAusdauer sustainability report covers performance indicators from the economic, environmental and social perspectives. The content of StärkeAusdauer’s sustainability report accounts for majority of the requirements stipulated by the GRI guidelines. For instance, within the economic parameter, StärkeAusdauer reports its interaction within the value chain by considering customer satisfaction, supplier relationships, localisation, compliance and economic stability and risk management. Social performance is disclosed in terms of employment - training and development of employees, demographic changes, advancing women in the workforce, work-life balance, working conditions and product and social responsibility. Environmental performance is covered with reference to climate protection, energy efficiency, electro-mobility, and resource and production efficiency, biodiversity, air and water quality and mobility concepts. The scope of StärkeAusdauer’s sustainability report has clearly reflected the integrated TBL approach to reporting which was one of the criticisms by Moneva, et al., (2006).

3.5 StärkeAusdauer Performance Dimension and Indicators

3.5.1 Economic Performance

StärkeAusdauer’s strength in economic performance has been dictated by their growth in sales revenue and after-tax operating profit. The cost of materials and employee wages and benefits paid out has also increased, however this has been relative to the simultaneous increase in production volume during the reporting period. Sales units increased by 15.4%, whilst production units grew by 21.5%. Return ratios on sales, investment after-tax and equity before-tax had all increased from the 2009 benchmarks. The 2010 value-added of the StärkeAusdauer group increased from the 2009 benchmark by approximately 49.5%, reflecting its economic stability.

StärkeAusdauer’s key organisational success has been the incremental increase in economic performance towards becoming a globalised market leader. They have outperformed their previous year results and thus reflected the effective implementation of their strategy. Some of their shortcomings may include the challenges regarding supply chain management and ongoing compliance as they gradually expand and take on more financial reporting responsibilities. Supply chain management issues may be resolved through strengthening the relationship or expansion through vertical integration.

The StärkeAusdauer sustainability strategy has created product innovative opportunities for StärkeAusdauer to expand their product range and thereby exceed customer expectations. As customer satisfaction is the basis for market capitalisation, their strategies relating to their economic goal have been tied to how they can improve customer relations. Superior technological advancements, especially in the automotive industry, will enable opportunities to produce the most efficient and clean...
vehicles in the market. Some potential risks that may be encountered include economic volatility where consumer confidence is low and sales do not meet benchmarks. Also, as a globalised organisation, political instability in a country may affect suppliers, consumers or other stakeholders along the value chain. Other risks entail the activities of their competitors which may be eliminated through horizontal integration or strengthening their core competencies and competitive advantage.

Within StärkeAusdauer’s sustainability strategy, they have adopted a conservative approach to resource and manufacturing efficiency. This has enabled them to achieve their high level of profitability by ensuring effective cost reductions across departments and within the value chain. StärkeAusdauer’s conservative sustainability strategy has also meant that efficient and innovative products have differentiated them from their competitors with their latest eco-friendly ‘EcoDrive’ technologies which are extensive in accommodating the needs of their diverse customer base. The focus on customer satisfaction as a key driver for long-term success has ultimately nurtured StärkeAusdauer’s economic growth and potential to becoming a globalised market leader.

3.5.2 Environmental Performance

StärkeAusdauer’s 2010 environmental indictors have demonstrated an overall decline in direct carbon dioxide emissions in comparison with the previous four years as a result of their resource-optimised manufacturing processes and conservation strategy. This has shown that their goal to reduce carbon emissions per vehicle has been achieved. However, there has been an increase in total energy consumption with regards to fuel, electricity and heating. This increase has been justified to be relative and attributable to the simultaneous increase in vehicle production. Similarly, water consumption, waste water and metallic wastes has also risen, but has declined relative to the volume of production.

StärkeAusdauer’s organisation success has been their ‘EcoVelocityBalance’ philosophy which has encompassed ideologies such as electro-mobility, resource efficiency in vehicle and raw material recycling, production efficiency in their manufacturing processes, green logistics and water and air quality. They have introduced technologies under their overarching brand ‘EcoDrive’, which concentrates on minimising carbon emissions and fuel saving efficiency. This has significantly contributed their carbon emissions reduction. A major shortcoming that has challenged StärkeAusdauer is the inability to meet the EU’s standard of carbon dioxide emissions reduction (Greenpeace, 2011). This has placed strenuous pressure on their manufacturing process efficiency. According to Greenpeace, as a reputable global organisation, StärkeAusdauer did not reduce emissions as much as it could have, despite having the capability to do so. Instead, they had only reduced emissions by the absolute minimum strictly for the purposes of compliance with the EU laws. This oversight has subdued the light in which they are portrayed, affecting their overall perceived value.
StärkeAusdauer’s EcoVelocityBalance sustainability philosophy has created opportunities for broadening their range of EcoDrive vehicles, which are aligned with customer satisfaction and societal expectations. For example, the most efficient EcoDrive model of the StärkeAusdauer Leaf has an efficiency rating of 99g/CO2/km. This has promoted the shift towards environmentally-friendly products as well as satisfying customer expectations - the key to long-term success. One of StärkeAusdauer’s inevitable organisation risks is the threats arising from competitors such as Ford and Toyota who have also marketed eco-friendly vehicles. Between 2006 and 2009, they have managed to reduce emissions by 18% and 14% respectively, compared to StärkeAusdauer’s 7.8% reduction. Other risks include changes in the regulatory environment such as the EU climate legislation and the regional standard of permissible carbon dioxide emissions. In recent years, StärkeAusdauer has lobbied against legislative changes to increase the carbon emissions reduction target to 30% (Greenpeace, 2011). As one of the world’s largest multinational organisations, they refuted against the changes, as the increase in the emissions target would only entail job insecurity and foster de-industrialization in Europe.

The ‘EcoVelocityBalance’ philosophy has effectively contributed to the way StärkeAusdauer has implemented their sustainability strategy. The principle underlying ‘EcoVelocityBalance’ has encouraged the innovative product development of eco-friendly vehicles and accommodated the market for environmentally-conscious drivers. Their strategy has also reflected an overall reduction in energy consumption and carbon dioxide emissions relative to production volume.

### 3.6 Evaluation and Recommendations

Despite StärkeAusdauer’s GRI A+ rating on the sustainability report, there are several aspects of which could be improved to provide a greater level of comprehensive reporting. For instance, they could increase transparency on non-reported areas such as their environmental impact on water, land and biodiversity, indirect energy consumption, labour practices and human rights as well as sanctions for non-compliance with laws and regulations. They could also enhance disclosures regarding how they have assessed their critical risks (e.g. water risks) associated with the automotive industry both locally and globally and how they have collaborated with suppliers and customers to address the risks. Additional explanations concerning major discrepancies and their corrective actions may also be relevant to users. Furthermore, it is important that they disclose both their positive and negative impacts to obtain an objective ‘true and fair’ view for decision making. Information pertaining to their inability to meet the EU standards was not disclosed, as this would have jeopardised their reputation. However, this ‘cherry-picking’ of information may be attributable to the lack of specificity as to how the GRI guidelines are to be followed.
4. Conclusion

The emerging issue of sustainability has compelled organisations to meet societal expectations with regards to the way they account for their operational impacts. There has thus been a need for integrated reporting whereby the TBL approach aims to strike financial, environmental and social balance in corporate reporting. However, as emphasised by Moneva, et al. (2006), due to the conceptual misunderstanding of the term "sustainable development", reporting and measuring sustainability has revealed that the unregulated sustainability framework has encouraged organisations to engage in acts of selective reporting, consequently compromising corporate accountability and the decision-usefulness of such information. It is apparent that more rigorous compliance mechanisms and regulatory intervention within the sustainability framework may be necessary, however this can only be achieved through a specific conceptual understanding of what is meant by the term 'sustainability'. As SD epitomizes future advancements, it is thus inevitable that the issues surrounding its conceptualisation must be currently addressed and resolved in order for organisations to adopt it as part of their strategic long-term planning. Albeit, environmental and social impacts cannot be measured in monetary terms, their relevance and significance should not be disregarded, as it is important for businesses to recognise that sustainable practice can empower investment and enhance economic growth.

References


About the Authors

Chiing’s academic interests lie in the accounting discipline of financial and behavioural accounting as she is interested in new and emerging ideas of how corporate accountability should be presented to external stakeholders. Her aspirations would be to advocate and make others aware of the environmental issues that have challenged our current way of accountability. She supports the notion that a sustainable corporate strategy can attract business success and simultaneously add and create value to society through the effective and efficient allocation and use of natural resources.

Jin’s academic interest is in the area of financial and environmental accounting, specifically the interplay of sustainability reporting as part of communicating the reality of an organisation’s operations. As the issue of sustainable development becomes increasingly significant, I have become interested in raising public awareness on various environmental issues concerning the measurement and evaluation of corporate impacts. I believe it is important that businesses fulfill their social and environmental responsibilities as sustainable business practice can promote market opportunities for future growth and advancement.

Ziyan’s academic interests are mainly focused on management accounting, as it can help top-level decision makers set strategies regarding sustainability reporting. I am also interested in the way sustainability and environmental accounting has been integrated into the traditional management accounting practices and its role in promulgating economic growth and development. I hope that sustainability reporting can be accepted by many organisations worldwide, thereby promoting a domain for the current sustainability framework to be extended and further developed.
Sustainability Reporting: The Divide between Reporting and Reality

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ABSTRACT

This report aims to provide insights into sustainability reporting, particularly the reporting-performance portrayal gap as defined by Adams' 2004 published academic paper; “The Ethical, Social and Environmental Reporting-Performance Portrayal Gap”. It considers Adams' research motives, identifies the theories developed in her argument, presents her research findings and discusses the contributions of her research. The report also examines Gypsum & Sons' strategies, the completeness of its reports and its reporting of performance in compliance with the Global Reporting Initiative, by examining its 2011 Sustainability Report. In particular, Gypsum's environmental and social performance is considered. The conclusions look to the need for improved external auditing processes, continued stakeholder involvement in sustainability reporting and comparable performance data that clearly and concisely indicates the ability of Gypsum to meet its sustainability strategies and goals.

Keywords or key phrases: GRI, performance, portrayal, reporting, and sustainability

Submission category: Research paper

1. Introduction

In the modern day world, there is increasing demand for an in-depth understanding of a company’s ethical, social and environmental performance and the impacts of this performance on the relevant stakeholders of the company. In order to disclose this, a company will issue a sustainability report. This research report aims to provide an insight into sustainability reporting through a perusal of existing research and an evaluation of an organisational sustainability report.

Firstly, existing research suggests that various reasons prevail, theoretical or otherwise concerning why sustainability reporting is necessary. To support some of these rationales, this report contains an analysis of Adams' (2004) published academic paper; “The Ethical, Social and Environmental Reporting-Performance Portrayal Gap”. This article focuses on the degree to which corporate reporting on social and environmental issues demonstrates the corporate performance of a company, and how the use of the Global Reporting Initiative (GRI) guidelines can improve the quality and reliance of these reports.
The second half of this research report aims to convey a practical understanding of the requirements stipulated in the Adams (2004) report. These requirements, including the GRI guidelines, are evaluated in the light of the contents of the sustainability report of Gypsum & Sons (Gypsum, 2011b). Finally, we provide recommendations on how Gypsum could improve its reporting. These recommendations are made with the view of identifying avenues through which Gypsum can address the GRI guidelines to a greater extent and provide more comprehensive reporting for report users.

2. The Reporting-Performance Portrayal Gap

The issue investigated in Adams’ (2004) case study is the degree to which corporate reporting on social and environmental issues demonstrate the corporate performance of a company, in this case, Alpha. The case study looks at the reports produced by Alpha and how well they mirror the corporate ethical, social and environmental performance provided by outside sources. Adams addresses the lack of completeness of the current reporting by Alpha, which is a significant issue in the current corporate environment. Adam’s concludes that Alpha demonstrates a lack of accountability and that a reporting-performance portrayal gap is apparent.

2.1 The Research Motivation

The motivation for Adams’ research is to evaluate how well the potential of current guidelines and standards developed by the GRI and Institute of Social and Ethical AccountAbility, in addition to the “responsible care” initiative, actually lessen the reporting-performance portrayal gap and increase corporate accountability (Adams 2004, p. 731). The case study examines what Alpha does and does not report and how the company portrays its ethical, social and environmental performance to its stakeholders. These reports are then compared with the portrayal of Alpha’s performance reported by external sources, which enables stakeholders to determine if a reporting-performance portrayal gap1 exists.

2.2 Adams’ Theoretical Concepts

Adams investigates the theory of sustainability2, and adopts Brundtland’s perspective, which is to define sustainability as “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (Brundtland, cited in Horngren et al. 2012, p. 558). The article proposes that the level to which a company reports on its performance in ethical, social and environmental areas

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1 The reporting-performance portrayal gap refers to the variation between corporate reporting on ethical, social and environmental concerns and corporate performance (Adams 2004, p. 731).

2 Sustainability theory refers to the set of ideas that dictates that resources should be used today in a manner which allows for their continued use in the future.
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is linked to the extent to which a company has executed its duty of accountability to stakeholders. It also hypothesises that without consultation with key stakeholders in the reporting process, these reports lack completeness. Adams states that her study of the comprehensiveness of reporting provides “an indication of the extent to which stakeholders can rely on corporate reporting as a means of assessing corporate performance”, taking into consideration current contextual concerns including limited ethical, social and environmental auditing, the need for stakeholder participation in the audit process and a prominent audit expectations gap (Adams 2004, p. 733).

The public can hold an alternate view in regards to producing sustainable and ethical reports. Some may feel that the company is acting in the best interests of its stakeholders, however others may accuse the company of engaging in disclosures for marketing purposes, thus losing the trust of the stakeholders (Van de Ven, cited in Ingenhoff & Sommer 2011, p. 74). According to Ingenhoff & Sommer (2011, p.74) “Companies’ activities can differ from stakeholder demands and therefore appear less trustworthy, particularly when they do not know the stakeholders’ expectations in terms of social engagement.” It is therefore essential to recognize which activities society expects from the organisation in order to develop dependable relations with these core stakeholders. Companies then must be able to effectively communicate this information to the stakeholders in their sustainability report.

In addition, the paper also touches on the hypothesis that an application of the currently voluntary guidelines of the GRI and the Institute of Social and Ethical AccountAbility can improve the quality of these reports and raise corporate accountability.

2.3 Adams’ Findings and Implications

To determine whether or not Alpha’s reports contained a significant reporting-performance portrayal gap, Adams compared Alpha’s ethical, social and environmental performance for the years 1993 and 1999 as depicted in Alpha’s own reports with sources external to the company, such as Internet sites and databases. If Alpha was to exhibit a high level of corporate accountability, they had to disclose all relevant impacts of their performance regardless of their outcomes. Otherwise, stakeholders would not have been provided with a transparent account of Alpha’s performance. However, Alpha barely acknowledged the negative impacts of their ethical, social and environmental performance in their reports, instead commenting on their achievements and awards.

External sources provided a different account of Alpha’s performance. They did not hesitate in revealing the more serious and negative impacts of Alpha’s performance, such as the presence of chemical X in local communities (Adams 2004, pp. 745-46), complaints made by Greenpeace (Adams 2004, p. 742), the false advertising of a product as “environmentally friendly” (Adams 2004, p. 742) and the prosecution of an Alpha business for the discharge of chemicals into the ocean (Adams 2004, p. 741).
This clearly shows Alpha deliberately omitting or providing a different interpretation of incidents that concern various stakeholders. The lack of completeness in Alpha's reports highlights little stakeholder consultation and involvement in the reporting process. If stakeholders are not consulted, Alpha will not be aware of the issues that concern its stakeholders, and therefore may not disclose enough material regarding those issues. This has implications for the major stakeholder groups of Alpha who rely heavily on their reports, particularly in regards to decision making. One way in which Alpha can improve their reports is by reporting in accordance with the GRI guidelines and Accountability’s AA1000, which calls for greater stakeholder involvement in the reporting process, which will enhance the credibility of reporting.

2.4 The Contributions of Adams’ Reporting-Performance Portrayal Gap

The underlying notion raised by Adams (2004, p. 732) is that corporations need to embed stakeholder perspectives in the reporting process to increase accountability. This can be achieved through the development of governance structures that provide a means through which the concerns of principal stakeholders can be considered. Adams (2004) asserts that stakeholder assurance substantiates the reliability of sustainability reports, and that such assurance could be enhanced with “generally applicable assurance principles and guidelines” (p. 735). Furthermore, Adams (2004, p. 750) purports that corporate governance structures need to be expanded to safeguard the interests of all stakeholders, rather than simply the primary shareholder group.

Adams’ suggestions apply to organisations and regulatory agencies alike in that they promote the requirement for more transparent reporting. She calls upon organisations to increase accordance with the GRI’s Sustainability Reporting Guidelines, with the result of “stakeholder dialogue” (Adams 2004, p. 750) and also to increase assurance by having sustainability reports comprehensively audited. Adams (2004, p. 749) also is of the opinion that regulators need to develop and adapt more coherent governance frameworks, in order to elevate them to the benchmark set by financial reporting standards.

3. Sustainability Reporting in Practice: Gypsum & Sons

A consideration of the annual Sustainability Report of Gypsum & Sons (Gypsum 2011b) provides a practical illustration of sustainability reporting in a global context. This analysis makes apparent the reporting-performance portrayal gap evident in some facets of Gypsum's reporting, but also reveals the accountable reporting of performance in other elements of Gypsum’s sustainability disclosures.

Gypsum’s dedicated sustainability report is also a practical example of understanding the GRI’s principles on report content and quality and this can be seen through an evaluation

3 Gypsum & Sons is a well-established energy producer, operating in the mineral extraction sector.
of their reporting against the GRI guidelines. Refer to Appendix 1 for a summary of the GRI’s definitions of and requirements regarding the principles for defining report content and ensuring report quality and Appendix 2 for a consideration of Gypsum’s compliance with these reporting principles. The finding in Appendix 2 is that Gypsum’s sustainability report meets all of the GRI’s requirements for content and quality. There is a GRI Application level check that establishes the report has fulfilled the content of the G3 guidelines. The report covers items that are material to the relevant stakeholders and members of the public, with limited knowledge of the firm and its activities, can understand the data and information disclosed.

### 3.1 Gypsum’s Sustainability Strategies

Gypsum’s sustainability strategies are broken down into four main focus areas that reflect significant stakeholder concerns, namely People, Environment, Society, and Governance.

The first focus area, “People”, relates to keeping people safe and healthy, and employing and developing people. To “ensure its people return home safe and well at the end of each day”, Gypsum has developed fatal risk controls and supports this goal with a key performance indicator (Gypsum 2011b, p. 6). According to its Sustainability Report, Gypsum (2011b, p. 7) accepts responsibility to help manage the impact of disease and accidents, and supports the wellbeing and development of its workers and the community whilst protecting the viability of its operations. Finding, developing and retaining skilled people are objectives that Gypsum believes is imperative to its success and Gypsum achieves this by developing the skills and capabilities of its workforce with training and development programs.

The “Environment” focus area includes reducing Gypsum’s climate change impacts, managing water use, and enhancing biodiversity and land management. According to Gypsum’s sustainability report, “By understanding the risks and opportunities around climate change, and how these affect our organisation, we believe we can reduce our own impact on the environment and make a positive international contribution to the issue” (Gypsum 2011b, p. 12). Managing water use is considered as part of its sustainability strategy because water is an indispensable resource that impacts upon production. Gypsum (2011b, p. 14) believes that managing water use is critical to supporting local health, its industry and the environment. Biodiversity and land management is part of Gypsum’s sustainability strategies as Gypsum recognises the increasing competition for land.

The third area of “Society” includes ensuring meaningful engagement with stakeholders, understanding and managing Gypsum’s human rights impact and making a positive contribution towards society. Gypsum ensures that it has meaningful engagement with shareholders in order to address impacts its operations may have on its stakeholders. Gypsum understands and manages its global human rights impact because it accepts
that it has a responsibility to understand its potential impacts on human rights and to mitigate or eliminate them (Gypsum 2011b, p. 21). Completion of human rights assessments is considered a key performance indicator for Gypsum. Gypsum believes that making a positive contribution towards society will ensure its success and actively seeks to understand its impact on societies and make contributions to better its presence within communities.

Lastly, Gypsum focuses on Governance strategies, which include effectively managing material risks, and reporting transparently and behaving ethically. According to Gypsum (2011b, p. 27) managing material risks includes “focusing on sustainability-specific risks for our people, the environment and our host communities”. Reporting transparently and behaving ethically is part of Gypsum’s sustainability strategy because it wants to instill confidence in stakeholders and understands acting otherwise could be costly to its image and success.

3.2 Gypsum’s Extent of Disclosure

The profile and management approach of Gypsum is disclosed in detail. Gypsum makes certain to inform its stakeholders that the company adheres to G3 GRI Sustainability Reporting Guidelines and details how it consistently works to maintain high standards and meets reporting requirements to be continually seen as a world leader in its industry. The management approach disclosed by Gypsum informs stakeholders of how it sets high performance benchmarks and maintains supervision of all aspects of the company. The company’s management approach attempts to maintain a perspective of high integrity and respect in relationships with its stakeholders. Overall, Gypsum likes to keep its stakeholders well informed of its profile and management approach.

3.3 The Scope of Gypsum’s Reporting

The variety of aspects of performance provided in Gypsum’s sustainability report spreads across the social, environmental and ethical aspects of sustainability reporting. However, more results regarding ethical aspects can be found in Gypsum’s financial reports. The range of performance indicators covers the strategies that are outlined in Gypsum’s sustainability objectives. The data that Gypsum compares its current year’s results with is a 2006 base year. The definitions of performance targets and comments on whether Gypsum are in line with meeting their target objectives are general as to how well the company is performing. Whilst the report stipulates how well Gypsum compares with its 2006 base year, it does not show how the company compares with industry standards. The report attempts to portray the information that stakeholders would demand of sustainability reports, but only providing general information as to how the company is performing may disappoint stakeholders in some respects.
3.4 The Reporting-Performance Portrayal Gap Applied to Gypsum

When evaluating an organisation's sustainability report, Adams (2004, p. 744 and p. 748) recommends contrasting the portrayal of performance by the organisation with external sources and current GRI guidelines to identify any differences in the disclosure of these issues. This concept can be applied to an evaluation of the 2011 Sustainability Report of Gypsum. For example, Gypsum (2011b, pp. 6-8) claims that it aims to lead the mining industry by keeping employees safe and healthy. While health and safety performance is discussed, no reference is made to the outbreak of fire at Gypsum’s Mt Keith mining site in April 2011. According to Quinn (2011) workers fled from heavy smoke, whereas Gypsum spokespeople claimed employees calmly evacuated. The Construction, Forestry, Mining and Energy Union told Quinn some damage was done to scaffolding and wiring, however, Gypsum insisted production was uninterrupted.

Conversely, the reporting-performance portrayal gap is less prevalent with regard to Gypsum’s proposal to expand a South Australian uranium mine. The Australian Greens political party opposed the expansion plans and engaged in talks with the South Australian and Federal Governments to compel Gypsum to consider a no-uranium option (Australian Associated Press, 2010). Reports indicate the risks of uranium mining and set out the benefits of the no-uranium option. In Gypsum’s sustainability report, Gypsum expresses its commitment to obtaining broad-based community support for substantial expansion ventures and identifies stakeholder involvement as central in the development of an Environmental Impact Statement (Gypsum 2011a, p. 1; Gypsum 2011b, p. 20). Whilst the strong opposition to this undertaking is not mentioned, this consultative process resulted in a number of amendments to the project and highlights Gypsum’s willingness to incorporate stakeholders’ views in its sustainability strategy.

Adams (2004, p. 732) also assesses the credibility of sustainability reports by appraising the portrayal of ethical issues in terms of the balance of positive and negative impacts. Gypsum’s sustainability report aligns with this perspective, by identifying where Gypsum has both met and fell short of its five-year targets. Gypsum’s CEO reported that the organization was on track to meet all of its five-year targets, with the exception of a failure to meet targets pertaining to occupational exposures, injury frequency, zero fatalities and land rehabilitation (Gypsum 2011b, p. 1). The incidence of fatalities was one of the first points raised in the CEO’s review, reiterating Gypsum’s accountability to employees and workplace safety.

3.5 Sustainability in Focus

Environmental and social performances are two of Gypsum’s core sustainability focus areas, which we go on to consider in detail below. The reason for this is that these sustainability perspectives are given the most weight in Gypsum’s sustainability reporting, and provide greater stimuli for discussion.
3.5.1 Environmental Performance

The sustainability issues arising from Gypsum’s environmental activities that are significant to stakeholders’ interests include reducing their climate change impacts, managing their water use and enhancing biodiversity and land management. According to the performance table in Gypsum’s sustainability report (Gypsum 2011b, p. 4), all but one of Gypsum’s environmental objectives for the financial year 2011 have improved from the previous year’s results and are on schedule to achieve the 5 year targets. A problem with the performance table is a lack of consistency in their commentary, in that the performances are not compared with the same base year. There is additional data in the appendix, Performance Data - Environment (Gypsum 2011b, pp. 33-35), which provides quantified information about the amount of resources used and raw materials produced for the years 2010 and 2011.

When the focus is on their successes, Gypsum does not hold back from listing their achievements. However, Gypsum does little to identify any of their weaknesses, but does acknowledge some of the challenges facing them in regards to improving their environmental performance. Like Alpha, Gypsum has failed to disclose any negative impacts of their environmental performance, and this could result from a lack of stakeholder consultation and involvement in the reporting process. For example, there was no mention of the protesting and confrontation between Gypsum and a South American leader, over Gypsum’s ownership in the Udon Mine, which has caused the destruction and pollution of nature and the loss of land (London Mining Network, 2011).

Gypsum identifies the risks and opportunities of climate change affecting their company, such as extreme weather events and the carbon tax, and provides further discussion about the risks and opportunities of climate change in the appendix, such as, how “carbon pricing could provide a cost advantage for low-carbon energy sources” (Gypsum 2011b, p. 35). They also identify several opportunities with water management such as water substitution and water stewardship, but should have put more effort into identifying and describing the risks and opportunities of their water use, biodiversity and land management, and how they would turn the risks and opportunities into better results.

In line with their sustainability strategy, Gypsum is striving to make reductions in their negative performance on the environment. Gypsum (2011b) demonstrates the implementation of their strategy in the report through the mention of using “hydroelectric power at the Emotive aluminum shelter” (p. 13) and utilizing water and land management plans at all operation sites. Moreover, Gypsum reveals that they are currently engaging with their stakeholders and taking an active role in developing standards and policies to make a positive contribution to the environment, by supporting the Australian Government as they develop their climate change policies and partnering with Conservation International to protect land with a high concentration of biodiversity.
3.5.2 Social Performance: Society

One of the sustainability areas upon which Gypsum focuses its efforts is society. Gypsum aims to undertake meaningful engagement with its stakeholders, determine and comprehend its human rights impact and make a positive contribution to society (Gypsum 2011b, p. 5). Gypsum’s performance data for this focus area is provided in an appendix to its Sustainability Report, by comparing performance for financial years 2010 and 2011. While this approach highlights areas of improvement and concern, it does not provide any insight into whether reported performance indicators exceed or fall short of organizational goals and targets set in previous years. This may be due to the fact that key Health, Safety, Environment and Community performance requirements concerning society are highly verbose in nature. Quantitative targets are not disclosed for these KPIs.

Gypsum clearly makes known both its successes and challenges (Gypsum 2011b, p. 30). For example, it views its formulation of clear defining principles for stakeholder engagement, "achieving 94 percent completion of human rights impact assessments in its 2011 financial year" and its role in nurturing the development of suppliers and businesses in the communities in which it operates as commendable accomplishments. On the other hand, Gypsum announced that it has a way to go in understanding the holistic social impacts of its business, and alleviating its negative impacts.

Performance indicators convey trends over time and pinpoint facets of the organization that require attention. By analyzing such trends, Gypsum can recognise threats and opportunities that will impact upon its organizational success. A high level of complaints from locals close to its Lioness Hill Coal operation, for example, has prompted Gypsum management to proactively address and moderate noise and dust concerns in collaboration with nearby residents (Gypsum 2011b, p. 19). This corrective action allows Gypsum to turn a series of criticisms into an opportunity to instigate more robust procedures. Similarly, Gypsum (2011b, p. 21) assesses human rights risks, as determined by human rights impact assessments, to control substantial risks through action plans and employee training.

Gypsum (2011b, p. 22) states that its “aim is to advocate continual improvement of standards and performance” in the mining industry, and its performance indicates that it is on track to achieving such improvements. Expenditure on financial programs in host communities in the 2011 financial year greatly exceeded the 2010 financial year expenditure, reflecting Gypsum’s policy of fostering the sustainable development of its host communities (Gypsum 2011b, p. 44). Stakeholder dialogue, through meetings, public forums and collaborative projects, has increased, deepening stakeholder engagement. Relationships with Indigenous peoples have been fostered, as shown through compliance with the United Nations Universal Declaration for Human Rights and formal agreements with Indigenous landowners, reinforcing Gypsum’s regard for elemental human rights.
3.6 Recommendations

Based on the evaluation of Gypsum’s sustainability report, there are some recommendations for enhancement of the information contained therein. For instance, Gypsum ought to provide more meaningful data to its stakeholders through its reporting. Reports should provide more quantitative data regarding results for key performance indicators and be more comparable. Gypsum should select one base year to compare with all its current data and also undertake comparisons with industry standards. These reports can be misleading as to whether the company is exceeding or falling short of its own benchmarks as well as industry benchmarks when such comparisons are not provided.

Gypsum should continue to improve stakeholder relationships in order to increase operational sustainability and reduce the environmental impact of its operations. Shareholders and other stakeholder groups are crucial in developing strategies and should be continuously involved in the preparation of sustainability reports and practices. Stakeholder involvement is an imperative component for a company to succeed and operate according to GRI guidelines and is necessary to ensure stakeholders both read and appreciate the information conveyed in sustainability reports.

4. Conclusion

The sustainability reports of Alpha and Gypsum demonstrated a lack of corporate accountability due to the presence of the reporting-performance portrayal gap in their reports. This gap was more prevalent in Alpha’s reports because according to external sources, Alpha’s performance had a far more negative impact on the community and environment it operated in than Gypsum’s performance. The use of GRI guidelines and other reporting standards has added quality and accountability to the reports by focusing on the reporting processes and “principles relating to report content, quality and boundaries” (Horngren et al. 2012, p. 567). This is evident through Gypsum’s report, which provides accurate and detailed information covering all material topics, evident through their compliance with all of GRI’s requirements for content and quality. However, improvements must be made in the areas of stakeholder dialogue and external audit processes to limit the reporting-performance portrayal gap. It must be remembered that sustainability reporting is voluntary: there needs to be a “call for comprehensive mandatory requirements concerning ethical, social and environmental reporting” (Adams 2004, p. 752) that also places emphasis on developing quality audit guidelines and sound corporate governance structures.
References


Appendix 1: The GRI Principles: Report content and quality

Figure 1 The GRI Principles: Report content and quality
### Reporting principles for defining content and quality applied to Gypsum & Sons

**Table 1 Reporting principles for defining content and quality applied to Gypsum & Sons**

<table>
<thead>
<tr>
<th>Reporting principles for defining content</th>
<th><strong>Materiality:</strong> Gypsum has a 3-step materiality process to identify the sustainability issues included in its reporting (Gypsum 2011b, p. 5). This includes identifying issues (with participation of shareholders and other third parties), rating the significance of the issue and then reviewing the issues and seeking feedback.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stakeholder Inclusiveness:</strong> Stakeholders are involved in determining which issues to report on. Whilst Gypsum has a wide range of stakeholders, only a few are selected as relevant to reporting for sustainability issues.</td>
<td></td>
</tr>
<tr>
<td><strong>Sustainability Context:</strong> Gypsum covers the three areas of people, environment and society clearly in their report. The environmental section particularly focuses on its performance with reference to broader sustainable development conditions and goals, such as reducing climate change impacts, managing water use and enhancing biodiversity and land management.</td>
<td></td>
</tr>
<tr>
<td><strong>Completeness:</strong> The report does not omit relevant information that would influence or inform stakeholder assessments or decisions, or that would reflect significant economic, environmental, and social impacts.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Reporting principles for defining quality</th>
<th><strong>Balance:</strong> In its sustainability report, Gypsum has included a table of performance for FY2011, compared against the 5-year targets that had been set for FY2007-FY2012 (Gypsum 2011b, p. 4). This table allows users an understandable format with which they are quickly able to gain an understanding of the performance of the business.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Comparability:</strong> Gypsum have explained their performance for FY2011 and in each category of people, environment and society they have comparable graphs over a 5 year basis for certain performance items, for example, greenhouse gas emissions. This is also complemented by a more in-depth comparison of performance indicators in the index.</td>
<td></td>
</tr>
<tr>
<td><strong>Timeliness:</strong> Gypsum’s yearly sustainability reports have been released in late September every year since 2008. The report specifies that it is for the FY2011, however it does not provide a specific reporting period. For this, users need to go to the financial statements.</td>
<td></td>
</tr>
<tr>
<td><strong>Reliability and Accuracy:</strong> To ensure reliability and accuracy of the report, KPMG have provided an independent assurance report (Gypsum 2011b, p. 47).</td>
<td></td>
</tr>
<tr>
<td><strong>Clarity:</strong> Gypsum’s sustainability report is set out in a clear and concise manner that allows users to easily find the relevant sections they want. The report is easily understandable with limited specific terminology.</td>
<td></td>
</tr>
</tbody>
</table>
About the Authors

Arlia is currently completing a Bachelor of Commerce, majoring in Accounting and Finance at Macquarie University. The highlights of her tertiary education thus far were receiving the Macquarie University Accounting and Corporate Governance prize for proficiency in ACCG301 Organisational Planning and Control in Semester One, 2012 and a Merit Certificate for Outstanding Academic Performance in the Faculty of Business and Economics in 2011. Upon finishing her degree in 2013, she intends to commence additional studies to become a Certified Practicing Accountant, while working full time in the management accounting discipline.

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John is currently undertaking a Bachelor of Commerce - Professional Accounting at Macquarie University. He hopes to transfer to a Bachelor of Applied Finance with the degree of Bachelor of Commerce - Professional Accounting in the year 2013. John previously attended Sydney Technical High School from 2004 - 2009. His highest educational achievement was receiving a $50 cash prize for placing within the top 1% in the UNSW Mathematics Competition. He hopes to one day work in the banking or accounting industry.

Sarah has been studying a Bachelor of Professional Accounting and graduates at the end of 2012. She looks forward to stepping out into the accounting profession and holding a graduate position with a leading accounting firm for the start of the year ahead. She has enjoyed her time at Macquarie University and has high hopes for her future opportunities.
Möbler’s Quest for a Sustainable Future

Mashood Aslami, Ijaz Aziz and Shalini Subramaniam
Macquarie University, Sydney

ABSTRACT

We review the problem and reasons for investigating the sustainability reporting framework in Spain based on the extant research of Gallego (2006), “An Exploration of Spain’s' Sustainability Framework”. Through the entrenchment and analysis of corporate social responsibilities and other theories Gallego (2006) determined a close correlation between the GRI framework and future implications that may impact Spain’s sustainability reporting framework. This signifies a transnational insight into a highly effective evaluation of company sustainability reports.

This leads us to examine MÖBLER’S sustainability report in a practical sense which permitted us to understand and delve into the disclosure of the management approach in sustainability reporting. The use of GRI principles allows a conclusion to be drawn highlighting MÖBLER’S report content and quality as well as MÖBLER’S optimal performance in achieving world’s best practice. This in turn denotes MÖBLER’S performance and targets leading to organizational successes and shortcomings, allowing them to implement various strategies to improve their drive to environmental sustainability.

Keywords: sustainability reporting, Global Reporting Initiative (GRI)

Submission Classification: Research Paper

1. Introduction

The increasing prominence of sustainable practices by firms around the world has raised the level of scrutiny concerning the reporting of a company's’ corporate social responsibilities. This eventuated in the formation of the Global Reporting Initiative (GRI) in 1997 and the first full version of the GRI reporting guidelines in 2000. The academic paper by Gallego (2006), investigates the level and quality of Spanish firms’ sustainability reports in the last two decades. This report examines the motivation for the academic paper and the approach undertaken during the investigation. Further, the findings of Gallego are analysed and used to relate to future implications, particularly with respect to how company sustainability reports may be evaluated. These findings have allowed us to critically evaluate MÖBLER’S 2011 sustainability report, which indicates the performance gap between the standard set by Gallego’s findings and MÖBLER’s report.
2. Exploration of Spain’s Sustainability Framework

2.1 Problems and Motivations

There are three key issues in relation to measuring sustainable development in Spain that are investigated by Gallego. The first examines the quality of economic, social and environmental information presented by a sample of Spanish Firms. The second relates to the extent to which the research participants implement sustainability indicators proposed by the Global Reporting Initiative (GRI) in their reporting framework and finally how these disclosures affect sustainable development in Spain (Gallego 2006, p. 78). These issues are important because there is an increased need for companies to disclose information in relation to their economic, social and environmental responsibilities to maintain position and reputation.

According to Gallego (2006, p. 79), there was a minimum level of disclosure of environmental, social and economic information by firms worldwide. For instance in Australia corporate environmental disclosure was positively related to environmental sensitivity and firm size (Deegan & Gordon 1996, p. 80). Also in the United Kingdom the majority of firm disclosures were related to governmental pressures rather than internal initiatives (Idowu & Towler 2003, p. 80). Based on the minimal level of disclosure at an international level, investigations soon turned to Spain, which has experienced an increase in firm disclosure of their Corporate Social Responsibility (Gallego 2006, p. 78). Therefore there is a practical rationale to test the level of CSR disclosure provided by Spanish firms in different industry sectors by referencing the GRI framework.

2.2 Theoretical Approach

Corporate Social Responsibility (CSR) is an important concern for any organisation, pursuing the long-term goal of sustainability development. It is a way in which organisations account for their economic, social and environmental impacts (Gallego 2006, p. 79). The Ethical branch of Stakeholder theory is the main theoretical approach in this paper which provides motivations for organisations to provide CSR information with consideration of standards proposed by various professional bodies.

The level of CSR guidance in Spain has improved in recent years through the increase in soft regulation such as the white paper composed by the Spanish Accounting Standards Board (ICAC) and the Global Reporting Initiative (GRI) framework (Gallego 2006, page 81). These guidelines are not compulsory and therefore CSR information is voluntarily presented by organisations. Accordingly, The Ethical Branch of the Stakeholder theory proposes that organisations will voluntarily provide this additional information to meet the expectations of their stakeholders (Moneva & Llena 2000, page 8).

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1 Corporate Social Responsibility (CSR) is defined by Gallego (2006, pp.78-97): “As a concept whereby companies integrate social and environmental concerns in their business operation and in their interaction with their stakeholders on a voluntary basis.”
Spanish firms have also experienced an increase in scrutiny in recent years by society and other stakeholders that are becoming more aware of environmental and social issues that can affect them (Moneva & Llena 2000, p. 7). Subsequently, as the ethical branch of the stakeholder theory posits Spanish organizations responded to the increased awareness by providing greater voluntary disclosure of their level of CSR to meet expectations of their stakeholders to reduce this scrutiny. No propositions and hypotheses were developed or tested, however the work undertaken in the study was to test the level of economic, social and environmental information disclosed by 19 leading organisations in Spain in varying industry sectors.

All firms in the study implemented the GRI framework. The main results of the study is specified on the tables below which are broken into the highest and lowest Economic, Environmental and Social disclosure percentages by firms in four varying industry sectors. High percentages indicate that more firms disclosed information related to those indicators and low percentages indicate the opposite.

Table 1: Highest and Lowest Economic Disclosures

<table>
<thead>
<tr>
<th>Sector of Activity</th>
<th>Highest Disclosure Percentage</th>
<th>Lowest Disclosure Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial and Insurance</td>
<td>&gt; Net Sales 100%</td>
<td>&gt; Indirect economic impacts 0%</td>
</tr>
<tr>
<td></td>
<td>&gt; Donations 80%</td>
<td>&gt; Contracts paid in accordance with terms 20%</td>
</tr>
<tr>
<td></td>
<td>&gt; Expenditure on non-core business infrastructure 60%</td>
<td>&gt; Total payroll and benefits 20%</td>
</tr>
<tr>
<td>Industries of transformation</td>
<td>&gt; Net Sales 100%</td>
<td>&gt; Indirect economic impacts 0%</td>
</tr>
<tr>
<td></td>
<td>&gt; Distributions to providers 100%</td>
<td>&gt; Cost of Goods 33%</td>
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<tr>
<td></td>
<td>&gt; Total taxes paid 100%</td>
<td>&gt; List of all suppliers 33%</td>
</tr>
<tr>
<td>Transport and Communication</td>
<td>&gt; Net Sales 100%</td>
<td>&gt; Indirect economic impacts 0%</td>
</tr>
<tr>
<td></td>
<td>&gt; Total payroll benefits 100%</td>
<td>&gt; List of all Suppliers 25%</td>
</tr>
<tr>
<td></td>
<td>&gt; Distributions to providers 100%</td>
<td>&gt; Contracts paid in accordance with terms 50%</td>
</tr>
<tr>
<td>Energy and water</td>
<td>&gt; Net Sales 100%</td>
<td>&gt; Indirect economic impacts 14%</td>
</tr>
<tr>
<td></td>
<td>&gt; Total Payroll and Benefits 100%</td>
<td>&gt; Contracts paid in accordance with terms 14%</td>
</tr>
<tr>
<td></td>
<td>&gt; Donations 100%</td>
<td>&gt; Expenditure on non-core business infrastructure 29%</td>
</tr>
</tbody>
</table>

Source: Gallego 2006, pp.84-88

As Table 1 illustrates, information in relation to the economic indicators such as net sales, donations and distributions to providers are disclosed by a high percentage of research participants. These are the economic indicators that Spanish firms believe stakeholders
require in their assessment of the economic impacts of the firm, which will contribute
to the sustainable development in Spain. However economic disclosures such as indirect
economic impacts, contracts paid in accordance with agreed terms and supplier list are
least disclosed by participants, suggesting that these disclosure are not required to assess
the economic impacts of the firm and/or contribute to sustainable development.

Table 2: Highest and Lowest Environmental Disclosures

<table>
<thead>
<tr>
<th>Sector of Activity</th>
<th>Highest Disclosure Percentage</th>
<th>Lowest Disclosure Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial and Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Materials used other</td>
<td>60%</td>
<td>&gt; Energy Consumption</td>
</tr>
<tr>
<td>than water</td>
<td></td>
<td>footprint</td>
</tr>
<tr>
<td>&gt; Direct energy use</td>
<td>80%</td>
<td>&gt; Water sources</td>
</tr>
<tr>
<td>&gt; Total water use</td>
<td>60%</td>
<td>&gt; Total amount of waste</td>
</tr>
<tr>
<td>Industries of transformation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Direct energy use</td>
<td>100%</td>
<td>&gt; Energy Consumption</td>
</tr>
<tr>
<td></td>
<td></td>
<td>footprint</td>
</tr>
<tr>
<td>&gt; Total water use</td>
<td>100%</td>
<td>&gt; Indirect energy use</td>
</tr>
<tr>
<td>&gt; Greenhouse Gas emissions</td>
<td>100%</td>
<td>&gt; use and emission of ozone</td>
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<tr>
<td></td>
<td></td>
<td>depleting substances</td>
</tr>
<tr>
<td>Transport and Communication</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Direct energy use</td>
<td>100%</td>
<td>&gt; Energy Consumption</td>
</tr>
<tr>
<td></td>
<td></td>
<td>footprint</td>
</tr>
<tr>
<td>&gt; Total water use</td>
<td>100%</td>
<td>&gt; Water sources</td>
</tr>
<tr>
<td>&gt; Total amount of waste</td>
<td>100%</td>
<td>&gt; Indirect greenhouse</td>
</tr>
<tr>
<td></td>
<td></td>
<td>gas emissions</td>
</tr>
<tr>
<td>Energy and water</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Direct energy use</td>
<td>100%</td>
<td>&gt; Energy consumption</td>
</tr>
<tr>
<td></td>
<td></td>
<td>footprint</td>
</tr>
<tr>
<td>&gt; Greenhouse gas emission</td>
<td>86%</td>
<td>&gt; Water sources</td>
</tr>
<tr>
<td>&gt; Total amount of waste</td>
<td>86%</td>
<td>&gt; Withdrawals of water</td>
</tr>
</tbody>
</table>

Source: Gallego 2006, pp. 84-88

Table 2 illustrates the most and least important environmental disclosures to the
research participants. The highest percentages of environmental disclosures such as direct
energy use, total water usage and degree of greenhouse gas emissions are most important
as they enable stakeholders to assess the environmental impacts of the firm. In contrast,
those disclosures that are least important such as the energy consumption footprints of
the firms, sources of water have not been disclosed by any of the firms participants as
they believe that stakeholders do not require these types of disclosure for the assessment
of the environmental impacts of the firm that leads to sustainable development.
### Table 3: Highest and Lowest Social Disclosures

<table>
<thead>
<tr>
<th>Sector of Activity</th>
<th>Highest Disclosure Percentage</th>
<th>Lowest Disclosure Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial and Insurance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Break down of workforce by type and contract</td>
<td>100%</td>
<td>&gt; Employee representation in decision-making</td>
</tr>
<tr>
<td>&gt; Employee benefits beyond those legally mandated</td>
<td>80%</td>
<td>&gt; Compliance with ILO guidelines</td>
</tr>
<tr>
<td>&gt; Complaints regarding privacy</td>
<td>80%</td>
<td>&gt; Non-compliance with regulation concerning product information</td>
</tr>
<tr>
<td><strong>Industries of transformation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Breakdown of workforce by type and contract</td>
<td>100%</td>
<td>&gt; Employee representation in decision-making</td>
</tr>
<tr>
<td>&gt; Lost days and absentee rates</td>
<td>100%</td>
<td>&gt; Compliance with ILO guidelines</td>
</tr>
<tr>
<td>&gt; Description of policies to manage impacts on communities</td>
<td>100%</td>
<td>&gt; Amount of money paid to political parties/institutions</td>
</tr>
<tr>
<td>&gt; Description of OHS committees</td>
<td>100%</td>
<td>&gt; Description of programmes to support continued employability</td>
</tr>
<tr>
<td><strong>Transport and Communication</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Average hours of employee training</td>
<td>100%</td>
<td>&gt; Non-compliance with regulation concerning consumer health</td>
</tr>
<tr>
<td>&gt; Description of policies to manage impacts on communities</td>
<td>100%</td>
<td>&gt; Amount of money paid to political parties/institutions</td>
</tr>
<tr>
<td><strong>Energy and water</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Breakdown of workforce by type and contract</td>
<td>100%</td>
<td>&gt; Human rights training for personnel</td>
</tr>
<tr>
<td>&gt; Average hours of employee training</td>
<td>100%</td>
<td>&gt; Description of community grievance mechanisms</td>
</tr>
<tr>
<td>&gt; Description of policies to manage impacts on communities</td>
<td>86%</td>
<td>&gt; Non-compliance with regulation concerning consumer health</td>
</tr>
</tbody>
</table>

*Source: Gallego 2006, pp. 88-84*
Similarly to the previous findings, Table 3 illustrates the most important social indicators that firms believe will enable stakeholders to assess the social impacts of the firm and will therefore disclose more types of social indicators such as descriptions of the composition of the workforces and policies to manage impacts on communities affected by activities. However those least disclosed such as non-compliance of certain regulations and amounts paid to political parties are deemed least important by firms for the assessment of the social impacts of the firm by stakeholders.

2.3 Implications of Gallegos’ Findings

Economic indicators are closely tied to the concept of profit. Given that all firms in the study are profit seeking entities, they all disclosed information relating to their economic impacts as these disclosure assist in determining profit and will attract investors such as information related to net sales (Lange 2002, p. 546). Firms may not have disclosed information related to other economic indicators such as their indirect economic impacts, as there is no societal pressure to present this information; it is not considered to be important for sustainability development. However as society becomes more aware of the importance of CSR and the economic bottom line it is likely that the percentages for those least disclosed indicators will steadily rise.

Environmental indicators are tied to factors affecting the natural world (Lange 2002, p. 546). Interestingly most of the firms in the varying industries that use natural resources did not significantly disclose their environmental impacts. For instance the energy and water sector did not provide any disclosure relating to water sources and total water use (Gallopo 2006, p. 89). These types of disclosures for the energy and water sector would be more relevant to stakeholders to assess the environmental impacts of the firm rather than for example the total amount of waste. Firms that directly use natural resources in their operations may not voluntarily account for any negative impacts on the environment as it increases scrutiny, which could result in harsher environmental regulation and taxes. The firms therefore are not providing a complete representation of their environmental impacts and are painting a positive picture which cannot be accurately used by stakeholders to assess the environmental effects of the firm that contribute to sustainability development.

Social indicators are tied to factors that can affect people (Lange 2002, p. 564). Those that relate to employment, health and safety, human rights and so forth are significantly reported by the research participants that can be linked to firms trying to retain and attract staff as well as to maintain a positive reputation in the public eye to reduce scrutiny (Gallego 2006, p. 80). Most of the negative indicators such as non-compliance are not reported by any of the firms reinforcing the fact that firms only provide information relating to their positive impacts which may not be accurate representation of the social impacts of the firms. In saying this however other disclosures which may be positive in nature such as compliance with certain regulation may not be provided by firms as there is no societal pressure to present this information.
3. MÖBLER

MMÖBLER is a market leader in the wholesaling and retailing of ready-to-assemble furniture. It was founded in 1943, proceeded to globalise its operations with 332 stores in 38 countries, as well as expanding and diversifying its product range to over 12,000 products. The GRI's Sustainability Reporting Guidelines offer entities like MÖBLER a framework to ensure that the right information regarding the corporate social responsibility of the entity is provided, and in the most appropriate manner possible. The GRI’s Principles for Defining Report Content and Ensuring Report Quality are particularly useful in doing this. To evaluate MÖBLER’s sustainability report we assessed to what extent MÖBLER had satisfied and complied with these principles. This could not be undertaken before considering broadly MÖBLER’s sustainability strategy and its management approach.

3.1 MÖBLERs’ Sustainability Strategy

MÖBLER incorporates sustainability as a cornerstone of its overall strategy which includes creating a “better life for the many people”. MÖBLER aims to improve the lives of all stakeholders through a combination of consistent growth, investment, sustainable practices, contributing to social development via the MÖBLER Foundation (MÖBLER’s associated charity), and a superior working culture. MÖBLER’s sustainability strategy as per MÖBLER’s 2011 Sustainability Report entails:

- offering a more sustainable range
- becoming a leader in the low carbon society
- converting bi-products into resources
- minimising water wastage
- taking initiative for MÖBLER’s social responsibility

MÖBLER has also set specific targets to be achieved by the 2015 financial year in all of the aforementioned areas.

3.2 Disclosure of Profile and Management Approach

MÖBLER has very elaborately disclosed its profile and management approach in its sustainability report. In particular, specific sections of the report are dedicated to describe MÖBLER’s interactions with its suppliers and customers (MÖBLER Sustainability Report 2011, p.2). However a section dedicated to the sustainability of its distribution network is lacking. Rather MÖBLER has explained several arrangements throughout the report in respect of improving the sustainability of its distribution networks,
mainly regarding the greenhouse gas emissions involved in this area of its business. MÖBLER has provided information addressing MÖBLER’s transport needs, how to minimise carbon emissions from its distribution channels with specific examples such as improving the process of loading stock onto trucks and containers to maximise the load and minimising the number of trips (MÖBLER Sustainability Report 2011). Other arrangements include using a more efficient means of transport such as rail rather than road. Nonetheless this omission makes it somewhat difficult to evaluate MÖBLER’s actions to provide for a more socially responsible distribution network.

MÖBLER’s disclosures concerning the procedures used to select and manage suppliers are clear, as are the initiatives being undertaken to encourage sustainable and socially responsible practices by its suppliers. Amongst others, MÖBLER has established a supplier code of conduct, known as IWAY, revealing MÖBLER’s expectations of its suppliers in terms of legal compliance, environmental standards and social & working conditions, before the supplier can initiate a partnership with MÖBLER (MÖBLER Sustainability Report 2011, p. 36).

Similarly, MÖBLER has provided abundant information regarding the initiatives it is undertaking to encourage social responsibility by its customers. MÖBLER has provided details on the products customers are purchasing and whether they are socially beneficial or not. Moreover, MÖBLER has released information on the initiatives it has undertaken to enhance customer engagement towards environmental and social responsibility, for example, encouraging the sale of SUNNAN solar powered lamps by donating an extra SUNNAN lamp for every lamp sold to a customer (MÖBLER Sustainability Report 2011, p. 18).

3.3 Application of GRI Principles - Defining Report Content

The principles for defining report content refer to the following four important attributes concerning what information should be provided according to the GRI:

- Materiality
- Stakeholder Inclusiveness
- Sustainability Context
- Completeness

MÖBLER’s report satisfies the materiality guideline of the GRI because in general, most of the information in the report strongly reflects MÖBLER’s economic, environmental and or social impacts and thus, is material. The report highlights the significance of such impacts to MÖBLER’s stakeholders. Information concerning key organisational values, policies, strategies, operational management systems, goals and targets are thoroughly
discussed throughout the report. Most of the indicators and measures represent critical factors for enabling organisational success. The report prioritises material topics and indicators including:

- Economic issues such as sales and geographic breakdown of markets (MÖBLER Sustainability Report 2011, p. 4).

- Environmental factors including the sourcing of materials such as wood and cotton, while addressing MÖBLER’s efficient use of energy (MÖBLER Sustainability Report 2011, p. 6).

- Social indicators such as the social/sustainable behaviour of suppliers (MÖBLER Sustainability Report 2011, p. 17).

The report is also successful in satisfying the GRI principle of ‘Sustainability Context’ as it presents MÖBLER’s performance in the relation to general sustainability. MÖBLER has explained what sustainable development entails through the words of its CEO, Mikael Ohlsson (MÖBLER Sustainability Report 2011, p. 7). It also draws on measures of sustainable development, such as the key performance indicators (KPIs) relating to MÖBLER’s carbon footprint and water footprint. MÖBLER relates sustainable development to its long term strategy, particularly since sustainability is one of the 4 cornerstones of its “Growing MÖBLER together” 5-year strategy (MÖBLER Sustainability Report 2011, p. 9).

MÖBLER has also fulfilled the ‘Stakeholder Inclusiveness’ principle of the GRI by thoroughly explaining MÖBLER’s goals and progress towards those goals in relation to all major stakeholders. A separate section for each major stakeholder describes MÖBLER’s accountability. The report draws upon the outcomes of engaging its stakeholders specifically for the report, for example engaging customers to purchase SUNNAN solar powered lamps. These demonstrate that MÖBLER’s stakeholders have been included and adequately reported on in terms of their sustainability and social responsibility.

Conversely, MÖBLER’s report does not satisfy the ‘Completeness’ principle. Although the report accounts for virtually the entire value chain including suppliers, inbound logistics, stores, management and employees; MÖBLER has omitted information regarding many key economic, environmental and social factors. For example, economic information lacks data regarding the distributions to MÖBLER’s shareholders and the taxes paid in each of the countries it operates in. Environmental indicators do not disclose any measures relating to biodiversity. And social indicators such as the number of jobs MÖBLER creates, among others, are absent. The report lacks the depth that many Spanish firms in the same industry had in their reports.
3.3 Application of GRI Principles - Ensuring Report Quality

The principles for defining report content refer to the following six important attributes regarding how the information should be provided according to the GRI, namely: Balance, Comparability, Accuracy, Timeliness, Clarity and Reliability.

Our evaluation suggests that MÖBLER's report is not well balanced, where positive disclosures greatly outweigh the negative ones. For instance, in the section reflecting MÖBLER’s participations in the communities it operates in, all of the topics refer to favourable actions undertaken by MÖBLER such as donations. Similarly, the overall report appears biased and does not allow the user of this report to make objective judgements as to MÖBLER’s true sustainability and social responsibility.

MÖBLER’s report is conveniently comparable across several years. Most KPIs have comparable figures from 2008. The report also tracks MÖBLER's progress in relation to its strategic goals (benchmarks) for sustainability and some figures have been shown as early as the 2005 year to illustrate the significance of the changes and improvements. Furthermore, MÖBLER has followed GRI guidelines to an extent, making it comparable between other company reports. For instance, the carbon emissions of both MÖBLER and Coca Cola are measured in metric tonnes, and total carbon emissions can be easily compared between the two companies (Coca Cola Sustainability Report 2011, p. 27).

The accuracy of MÖBLER’s sustainability report cannot be verified. Several of the ‘tests’ provided by the GRI in this matter cannot be passed. The tests allow the users of the report to evaluate if each principle is satisfied by checking for some common examples of characteristics in sustainability reports. For example, one test for the accuracy of the report is to check if there is adequate information about what data has been measured and data measurement techniques relevant to all calculations are included so that any calculations can be repeated with similar results. There is little indication that the data has been measured, and descriptions for how the data has been calculated are omitted. Other tests include an explanation about the margin for error regarding any of the data provided, which of the data is solely based on estimates and any assumptions underlying those estimates, or where the information can be found. These are also deficient albeit, there is some evidence in MÖBLER's annual report that confirms its economic information (MÖBLER Yearly Summary, 2011).

Sustainability reports by MÖBLER are released on a yearly basis, in a timely manner, implying consistency of release thereof. The reports cover the period September 1 to 31 August (MÖBLER Sustainability Report 2011, p. 1). This complements MÖBLER’s annual report which also covers that period, making comparability of economic/financial and sustainability indicators more streamlined. Conversely, there is no understanding whether the information regarding KPIs is aligned with the sustainability reporting schedule due to the lack of explanation on how and when the information is collected, despite having a supplemental report relating to MÖBLER’s approach to sustainability (The MÖBLER Group Approach to Sustainability, 2011).
The report very effectively achieves clarity. Information provided, such as that relating to the KPIs, is understandable and easily accessible. The use of illustrative tools such as graphs, e.g. pie charts used to describe the breakdown of MÖBLER’s markets, and tables used for year-to-year comparative information, is very effective in providing ease of use (MÖBLER Sustainability Report 2011, p.4). The report also avoids excessive and unnecessary information by prioritising material information. The use of technical jargon is minimal and hence explanations are not required.

The reliability of the information and processes used in the preparation of MÖBLER’s report is also problematic. Again, due to the lack of information on how the data has been compiled, the difficulty arises in the inability of the users of the report to examine those methods used. Most of the tests provided by the GRI have not been met by the report. The scope and extent of external assurance is not identified. Most of the information has been sourced by MÖBLER itself and hence it cannot be verified beyond the scope of the report. Because of this, external parties cannot attest to the accuracy of the information or to the acceptability of the margins of error and so on.

3.4 MÖBLER’s drive to improve their efficiency and sustainability

MÖBLER has been conducting numerous tests in laboratories and developing new tools such as The MÖBLER Sustainability Score Card every year to check their products concerning fire resistance, durability, emissions. In addition, MÖBLER encourage their customers to contribute a good relationship with social and environmental by focusing on reducing energy, reducing food waste and consuming of water. Furthermore, by using renewable energy for their buildings and stories and investing in solar and wind, people transport by virtual meetings, only accept legally harvested materials such as Wood, Cotton are produced set by the Better Cotton Initiative (BCI) - social and environmental criteria, and step by step build their projects, strategies to reduce the water consumption, zero waste to landfill for store operations.

MÖBLER wants to be an attractive and competitive employer that offers equal treatment and opportunities for a fulfilling career in a safe and healthy environment and their strategies aim to increase compensation and benefits for their co-workers in long-term profitability. They are also creating and supporting the MÖBLER Foundation by using campaigns and local activities such as the Soft Toys campaign and the sale of SUNNAN solar lamps to improve opportunities for children and youth in developing countries. In general, MÖBLER are trying to make their products will be safe, healthy and negative impact to customers and environment, motivate and encourage their co-workers, suppliers relying on a good and long term relationships, in sharing their values and taking social and environmental responsibility, as well as positive contribution and construction for the development of social. Achieving economic, social and environmental success will relate with the success of MÖBLER’s business today. (Savitz, A. W. and K. Weber, 2006).
3.5 Performance Indicators

In our opinion, the two GRI performance indicators which are most relevant to MÖBLER's strategies and goals include:

- Environmental performance, which is a critical performance indicator because MÖBLER has established a number of environmental targets for its new financial year and by using environmental performance as a Key Performance Indicator we can determine MÖBLER's level of success in achieving its set goals.

- Social performance including labour practices and decent working conditions. MÖBLER has also established a number of employment satisfaction schemes such as benchmark rewarding. By using social performance as a key performance indicator we are able to determine if MÖBLER is satisfying its workforce and complying by industry standards.

3.5.1 Results of Performance vs. Goals or Targets

MÖBLER's Environmental performance has been effective because they have reached their target of reducing CO2 emissions by 10% (MÖBLER Sustainability Report 2011, p. 9). They have done this by investing in renewable energy which currently uses 50-75% of their energy (MÖBLER Sustainability Report 2011, p. 9). This drive towards ecological sustainability is increasingly an important element in a business' framework and as such MÖBLER's diligence towards this code establishes a higher degree of market leadership.

MÖBLER's Social performance, specifically concerning product responsibility, has been highly effective as they have started to offer a greater range of furniture which is more environmentally sustainable (MÖBLER Sustainability Report 2011, p. 9). This involved them changing 25% of their designs and inputs which have allowed their furniture to be more environmentally friendly (MÖBLER Sustainability Report 2011, p. 14).

3.5.2 Key Organisational Successes & Shortcomings

Although MÖBLER have decreased their CO2 emissions by 10%, their actual target was 15%. This demonstrates a shortcoming of 5% (MÖBLER Sustainability Report 2011, p. 9). MÖBLER have explained that this shortcoming was caused by a decreased demand for goods as a result of the post Global financial crisis effects. However in saying this, many other businesses have failed to achieve any reduction in CO2 emissions as a portion of their production. So MÖBLER's achievement is appropriate as it has set a benchmark for many other businesses in the market.

MÖBLER have successfully achieved their target to redesign 25% of their goods in a less than expected time frame (MÖBLER Sustainability Report 2011). This demonstrates the devotion to a more sustainable and environmentally friendly company. Furthermore there sales
increased as a result of this redesign which demonstrates that the quality of the goods have not been sacrificed.

3.5.3 Organisational Risks & Opportunities

Upon realising that the organisation was able to reduce their emissions, MÖBLER then saw the opportunity to increase their goals to reduce their emissions by 30% by 2020 and have also aimed to make renewable energy their only source of energy by 2020 (MÖBLER Sustainability Report 2011, p. 9). The two new strategies are highly achievable as they are dependent on one another; if they increase their dependence on renewable energy this will reduce CO2 emissions.

Upon seeing that they were able to make 25% of their furniture environmentally friendly, MÖBLER has set another opportunity goal which they wish to achieve by 2015 (MÖBLER Sustainability Report 2011, p. 17). The goals include; ensure that 90 per cent of the revenue from sales comes from home furnishing products which are more sustainable in the MÖBLER Sustainability Product Score Card. 100 per cent of materials which are used to develop home furnishing products shall be renewable, recyclable or recycled. MÖBLER’s energy-consuming products will become 50 per cent more efficient in comparison to what was previously installed in the market (MÖBLER Sustainability Report 2011, p. 13).

3.5.4 Implementation of Sustainability Strategy

The organisation’s sustainability strategy is to become a more environmentally friendly business through the implementation of various ways including a reduction in their CO2 emission and establishing a more environmentally friendly product range (MÖBLER Sustainability Report 2011, p. 9). These goals have been implemented through coherent, effective and efficient resource management which have allowed MÖBLER to achieve these goals and at the same time maintain their growth and sales.

3.6 Potential areas of improvement

MÖBLER have the opportunity to make many more changes to their sustainability report to enhance their ability to better address the requirement of the GRI guidelines. By doing this MÖBLER will ensure that it will satisfy more users of its report. Furthermore by improving its sustainability report it may attract more potential consumers as they demonstrate their environmentally friendly and independent diligence to follow the GRI guidelines. MÖBLER could commit to the following actions to improve their sustainability report:

- MÖBLER can provide cross comparisons of their environmental strategies with other businesses. By doing this MÖBLER will improve their sustainability report as the users of the report will be able to compare the performance of MÖBLER with other businesses. This in turn will demonstrate if MÖBLER’s performance is as effective as other businesses in the market.
MÖBLER can communicate a broad sustainability statement or vision encompassing their most desired objectives rather than separating each objective into sections at the commencement of their report. This statement or vision may inform users at a glance in terms of what the business is aiming to accomplish. This will support the organisation in drawing attention to its sustainability report which will in turn persuade the user to further delve into the sustainability report. In fact the GRI guidelines, suggest this however MÖBLER have failed to comply with this aspect of the incentive.

By following these recommendations, MÖBLER will enhance the quality of their report in terms of being more effective and efficient in communicating its sustainability initiatives and performance. This may in turn satisfy the users of the reports to a greater degree through their ability address the information demand of report users which will increase the goodwill of MÖBLER.

4. Conclusion

The evaluation of MÖBLER’s 2011 sustainability report has enhanced the insights gained from Gallego (2006). In thoroughly analysing Spain’s most prominent firms in regards to their disclosure of economic, social and environmental information and the GRI principles, we were able to relate and compare MÖBLER’s disclosures to those of firms in Spain and the GRI principles. MÖBLER being similar to the “industries of transformation” sector as categorised by Gallego, has shown similarities in the CSR disclosures of its sustainability report to those of the most prominent Spanish firms. In truth, both MÖBLER and its Spanish counterparts have disclosed information predominantly to maintain a good reputation. The information provided is not balanced and it appears to only show the positive impacts that the firms make on economic, environmental and social concerns. Furthermore, although Spanish firms may have provided more information than was evident with MÖBLER, it was not necessarily meaningful information and did not add any value to what was already being disclosed. This is not surprising since reporting on negative factors such as indirect environmental or social impacts may very likely tarnish a firm’s image. This combined with the fact that there are no compulsory regulations for what should be disclosed in a firm’s sustainability report, only soft regulations such as the GRI guidelines, creates an environment where the public demand for information is not being met adequately.

We have also determined that MÖBLER and its Spanish counterparts have provided a considerable volume of information but it is lacking in foundation. The users of the reports are left to contemplate the future benefits or costs that may arise from current investments or initiatives being taken to cater for the environment and the social good.
It may be that since CSR reporting is a relatively new process, the organisation still has much to develop with regards to its sustainability report. Over time firms may understand that the information is not balanced and lacks adequate interpretation and transform their reports to become more appropriately aligned with the information required by the public. However it may also be that a lack of regulation is the main cause for the underdeveloped sustainability reports. Whatever the case, the pressure is bound to build on multinational firms like MÖBLER to report on the firm’s negative effects on society and the environment as well as the positives, and sustainability reports will further evolve over time.

References


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