



Ruta Sneidere
PhD (Economics), Associate Professor,
University of Latvia, Riga, Latvia
5 Aspazijas Blvd, Riga, LV-1050, Latvia
ruta.sneidere@lu.lv

UDC 339.3.657.658



Inese Vigante
PhD Student, University of Agriculture of Latvia,
Jelgava, Latvia
18 Svetes Str., Jelgava, LV-3001, Latvia
inese_vigante@inbox.lv

IMPORTANCE OF SOCIAL AND SUSTAINABILITY REPORTING IN ENSURING TRANSPARENCY AND DISCLOSURE

Abstract. Information availability and disclosure from companies allows not only providing the society with information, but it also gives the opportunity to address different socially negative phenomena which have become international problems, in economics, politics and social area. The authors of the paper investigate the importance of sustainability reporting and related issues of corruption. Our research shows that in Europe, more than four of ten companies consider that corruption obstructs entrepreneurship. Information availability and disclosure are those principles that allow avoiding corruptive situations and relations. Transparency is bound with the public informing and educating about corruption preventing. Application of social accounting principles should be encouraged based on the standards of the Global Reporting Initiative (GRI).

Keywords: disclosure; sustainability; transparency; corruption; GRI.

JEL Classification: M41, M48

Рута Шнейдере

PhD (экон.), ассоциированный профессор, Латвийский университет, Рига, Латвия

Инесе Виганте

докторант (экон.), Латвийский сельскохозяйственный университет, Елгава, Латвия

ВАЖНАЯ РОЛЬ СОЦИАЛЬНОЙ ОТЧЕТНОСТИ И УЧЕТА УСТОЙЧИВОГО РАЗВИТИЯ ДЛЯ ОБЕСПЕЧЕНИЯ ПРОЗРАЧНОСТИ И ОТКРЫТОСТИ

Аннотация. Доступность и открытость данных о деятельности компаний позволяет не только обеспечивать общество информацией, но и преодолевать различные негативные явления, ставшие международными проблемами в экономике, политике и социальной сфере. Авторы изучают нефинансовую отчетность по устойчивому развитию с целью определения взаимосвязи между открытостью и вопросами, связанными с риском коррупции. Эти проблемы являются довольно актуальными: в Европе более четырех из десяти компаний полагают, что искажение отчетных данных препятствует предпринимательству. Наличие и раскрытие информации являются принципами, позволяющими избежать коррупционных ситуаций и отношений. Прозрачность, связанная с информированием и просвещением общества о предотвращении коррупции и применении принципов социального учета, должна всячески поощряться и соответствовать стандартам Глобальной инициативы по отчетности (The Global Reporting Initiative – GRI).

Ключевые слова: открытость; устойчивость; прозрачность; коррупция; GRI.

Рута Шнейдере

PhD (экон.), асоційований професор, Латвійський університет, Рига, Латвія

Инесе Виганте

докторант (экон.), Латвійський сільськогосподарський університет, Елгава, Латвія

ВАЖЛИВА РОЛЬ СОЦІАЛЬНОЇ ЗВІТНОСТІ ТА ОБЛІКУ СТАЛОГО РОЗВИТКУ ДЛЯ ЗАБЕЗПЕЧЕННЯ ПРОЗОРІСТІ Й ВІДКРИТОСТІ

Анотація. Доступність і відкритість даних про діяльність компаній дозволяє не тільки забезпечувати суспільство інформацією, а й дає змогу долати різні негативні явища, що стали міжнародними проблемами в економіці, політиці та соціальній сфері. Авторів вивчають показники нефінансової звітності стійкого розвитку й питання, пов'язані із ризиком корупції. Ці проблеми є вкрай актуальними: у Європі більш як чотири із десяти компаній вважають, що перекручування звітних даних перешкоджає підприємництву. Наявність і розкриття інформації є тими принципами, що дозволяють уникнути корупційних ситуацій та відносин. Прозорість, пов'язана з інформуванням суспільства про запобігання корупції на основі застосування принципів соціального обліку, повинна всіляко заохочуватися й відповідати стандартам Глобальної ініціативи зі звітності (The Global Reporting Initiative – GRI).

Ключові слова: відкритість; стабільність; прозорість; корупція; GRI.

Introduction & Brief Literature Review. To provide more disclosure and transparency of information, social and sustainability reporting are applied to the operation of companies and public administration organizations. The concept of sustainable development gained topicality in the result of the 1987 Brundtland report, titled «Our Common Future». The report defined sustainable development as «meeting the needs of the present without compromising the ability of future generations

to meet their own needs». The debate on the development of sustainability, which gained momentum after the publication of The Brundtland Report, focused primarily on environmental issues (McMichael, 2012, p. 240) [1].

The United Nations (UN) has paid attention to the consequences of corruption. Authorities of the European Commission discuss and try to find the better platform for communicating the organization's economic, environmental, social and governance

performance, reflecting positive and negative impact. In the EU economics corruption costs 120 billion EUR a year. McMichael (2012) [1], Borghesi and Vercelli (2008) [2], Gray and Milne (2013) [3], Ball and Osborne (2011) [4] et al. have investigated context of sustainability and corruption prevention.

Shadow economy creates significant material, social and political losses for every country. There is interesting research on correlation between some economic and social indicators and corruption. For instance, corruption was examined in the light of potential correlation with the rate of economic growth, allocation of public funds, Internet penetration, budget for prosecution, and enforcement of competition rules.

The purpose is to investigate the importance of sustainability reporting and their related issues of corruption. The tasks of the paper are to show used definition in literature for «sustainable company», commonly accepted approaches to sustainability reports design, to analyse the consequences created by corruption and the trends related to corruption. As well as develop conclusions and recommendations based on the international reporting practice for ensuring transparency and corruption prevention. The monographic, analysis and synthesis methods, including interviews with experts have been used in the present research.

Social and sustainability reporting and disclosure of information

Development of the economy in its usual macroeconomic sense is sustainable only if the activity of most companies operating within the economy is sustainable itself. It incorporates an entity's economic, environmental and social performance indicators into its management and reporting processes. «Sustainable business», or «sustainable company», are terms that are now being used by companies which are integrating sustainable business practices into their corporate and brand strategies whilst seeking to address shareholder and stakeholder interests within these strategies. Business sustainability is often defined as managing the triple bottom line: a process, by which companies manage their financial, social and environmental risks, obligations and opportunities. This approach relies on accounting based information.

A more robust definition is that business sustainability represents resiliency over time: businesses that can survive shocks because they are intimately connected to healthy economic, social and environmental systems. There are a number of best practices that foster business sustainability. These practices include stakeholder engagement, environmental management systems, reporting and disclosure (Ft. Com/lexicon, 2014) [5].

The objectives for sustainability reporting can be defined as information providing to present and potential stakeholders in making rational decisions. Information should be comprehensible to those who have a reasonable understanding of business and economic activities as well as of environmental and social impacts caused by these activities, and who are willing to study the information with reasonable diligence. In a growing number of cases, companies find that they need to respond to stakeholder concerns not only by changing their practices, but by being more open in reporting how they performed against key social, ethical and environmental criteria. Measurement and control are at the heart of instituting sustainable practices. The criterion of sustainability is based on a principle of equity that may balance the different interests through time. According to the view of stakeholder theory, a company should concern itself with creating value for all the subjects, called stakeholders, who are interested in its performance and its consequences, especially its employees, customers, suppliers and the local communities where it operates. It is confirmed by a growing number of studies that have applied the most diverse methods (historical, statistical, econometric), that in the long term there is no irreconcilable conflict between a company's specific aims (maximization of sustainable profit) on the one hand, and stakeholders' welfare and quality of life on the other hand. The results mostly confirm that companies which have survived longer and have attained higher average profitability are precisely those

that have attached greater importance to the interests of all stakeholders within a far-sighted framework (Borghesi & Vercelli, 2008, p. 155) [2].

Elkington (as cited in Gray & Milne, 2013 [3]) has come to the following conclusion: «It becomes clear that communicating effectively with stakeholders on progress towards economic prosperity, environmental quality and social justice, i.e. the triple bottom line, will become a defining characteristic of corporate responsibility in the 21st century». Sustainable development reports are defined as public reports by companies to provide internal and external stakeholders with a picture of corporate position and activities on economic, environmental and social dimensions. Such reports attempt to describe the company's contribution towards sustainable development (Gray & Milne, 2013, p. 14-20) [3].

This process has become reinforced and institutionalized through sustainability benchmarking reports, KPMG's surveys of practice, initiatives by accountancy profession and, particularly, The Global Reporting Initiative (GRI) sustainability reporting guidelines, etc. The GRI is both an independent institution and what is claimed to be the world's first standardised approach to sustainability reporting. KPMG's Global Head of Sustainability Reporting & Assurance W. Bartels (as cited in KPMG, 2013, p. 31) [6] points out: «In this era of professional reporting, companies need to be able to explain to stakeholders the basis on which their report has been prepared. Use of an external framework such as the GRI will increasingly be seen to be essential to demonstrate credibility».

GRI is the result of cooperation between researchers, industry and consultants and the output of a multi-stakeholder approach. GRI defines sustainability reporting as a process that assists organizations in setting goals, measuring performance and maintaining change towards a sustainable global economy – one that combines long-term profitability with social responsibility and environmental care. Sustainability reporting is fundamental to an organization's integrated thinking and reporting process in providing input into the organization's identification of its material issues, its strategic objectives, and the assessment of its ability to achieve those objectives and create value over time (GRI, 2014, p. 85) [7].

Authorities of the European Commission suggested that in their management reports large companies should find it useful to disclose significant information that refers to at least environmental, social and employee related issues, observing human rights, anti-corruption and bribing aspects. Providing this information, companies may use as basis the national, EU or international regulations, for example, such as UN Global Treaty, Organization for Economic Cooperation and Development Guidelines for Multinational Companies, ISO 26000, Tripartite Declaration of Principles Concerning Multinational Companies and Social Policy and the Global Reporting Initiative (European Commission, 2013, p. 7) [8].

Small companies are less «quasi-public» (exposed to the public) than large multinationals. Their management capacities are often more limited so that the costs involved with sustainability reporting are relatively much higher than for large companies. For such small companies the inclusion of environmental, social matters in the financial annual report is a viable alternative to a special sustainability report. The credibility of reported information depends on the credibility of management and its sustainability statement. Therefore, a clear commitment from top management is necessary. Ideally, this commitment should be supported with the activities of management and employees of the company. In some cases even the private life of top managers can influence the credibility of the company as a whole (Starkey & Welford, 2000, p. 234) [9].

Public sector organizations should play a part in sustainability. Ball and Osborne's (2011) study of social reporting practices in Italian local government organizations conclude that, because of this impact, the public sector can make a significant contribution to sustainability. It is crucial for the public sector to account for its performance in relation to sustainability and report, including social, environmental, and economic policies, strategies, actions, and results (Ball & Osborne, 2011, p.192-193) [4].

After the careful study, we can note that there is a trend towards the development of regulations that integrate existing international reporting frameworks GRI and the UN Global Compact Communication on Progress, and require the integration of relevant stakeholders in order to reflect change and to facilitate the continuous improvement of regulations. Governments of the EU Member States have developed the following initiatives: The Spanish State Council on Corporate Social Responsibility had setup a «Working Group on Transparency, Reporting and Standards» in sustainability reports that had planned to present a study on the possible need to regulate the information that should be published in triple bottom line reports of companies. Bulgaria had identified the need to regulate the obligation to draw up social reports in its national action plan. Extensive discussions had been taking place on the future of reporting in Poland. The inter-ministerial working group had submitted recommendations on increasing transparency and reliability to the Polish Government, which would form the basis for future activities in the area of policy measures developing for environmental, social and governance (ESG) disclosure (CSR, 2011, p. 31-32) [10].

Our current research let us to conclude that it is significant for the public administration and entrepreneurial activity to introduce reporting about anti-corruption aspects, which are included in the sustainability reports based on the GRI guidelines in order to create larger disclosure and transparency.

Corruption related problems and their limiting aspects

Shadow economy can be considered as a result of unsuccessful business management processes. On the one hand, misuse of authority power forces entrepreneurs to operate in the shadow sector, on the other hand, not disclosing revenue creates favourable conditions for bribing.

Tyurina (2005, p. 27) [11] concludes that the degree of business entering the shadow sector can be treated as a test indicating to the appropriateness of the taxation policy, state regulation methods, parameters of the legal system and the economic policy implemented by the country.

There are several reasons for the existence of shadow economy. One of them appears in the fact that a conflict between the private, individual interests and the public interests frequently happens. The driving force of the egoistic motives can limit the existing limitations of human behaviour that are fixed in morals, traditions and rights. In such a case, the human breaks the established public order, which may cause damaging consequences in the social life. The impact of the country on the shadow economy sector is limited; most of the tools have proved to be ineffective. Corruption is a cause for political dissatisfaction and social inequality. According to the world experience, shadow economy is characteristic to the countries that exhibit a high level of corruption, lack of definite development strategy, nor there is a favourable environment for the development of small and medium size businesses. The United States Small Business Administration (SBA), defines a small business as «one which is independently owned and operated for profit and is not dominant in its field» (Pride, Hughes, & Kapoor, 2014, p. 114) [12].

According to our previous studies most of small and medium-sized companies (SMEs) have always been well established in the communities where they are located and have made a significant contribution to local socio-economic development. SMEs are the backbone of Member States' economies, so they have significant impacts on the environment through their activities, products and services. According to

democracy standards, SMEs are a foundation of the middle class, which is tied within the corruption oppression that is present everywhere. Corruption not only hampers business, but literary destroys an entire social layer.

In Europe, more than four out of ten companies consider that corruption hampers entrepreneurship. Findings of a survey approve that the smaller the company, the more frequently corruption causes problems in business operations. In the EU Anti-corruption report, corruption is defined in its broad meaning as any «malicious use of power for obtaining personal benefits,» (The Commission's report, 2014, p. 2-7) [13].

Corruption has political, economic and social consequences, which are reflected in the Table.

Table : Consequences caused by corruption

Political consequences

1. Political power may be used to satisfy the needs of oligarchic groups not to attain national goals.
2. Trust in power reduces, alienation of power from the public occurs.
3. The country's prestige in the international environment decreases, its economic and political isolation possibility increases.
4. Political competitiveness reduces; inhabitants do not believe in democratic key values, further existence of democratic institutions is threatened.
5. Replacement of the democratic political system is possible.

Economic consequences

1. Shadow economy is developing, causing reduced tax inflows and weakening of the budget.
2. The market effectiveness decreases.
3. Budget resources are used inefficiently, especially regarding the state orders.
4. Due to the value added by corruption, prices rise, the consumer suffers.
5. Market representatives start not to trust the ability of the authorities to create and follow fair market rules.
6. Corruption amount increases in non-governmental organizations.

Social consequences

1. Society does not receive resources for the development goals.
2. Sharp material inequality strengthens and increases; corruption creates resources for their unfair and illegal redistribution for the benefit of one narrow group of oligarchs.
3. The rights as a core instrument for regulating the country and the public are discredited.
4. Corruption of legal authorities facilitates the development and strengthening of organized crime.
5. Social tension increases, which affect economics and threatens the political stability in the country.

Source: Vilks (2000, p. 50-53) [14]

Our research shows that strong law enforcement and state institutions and a low corruption level facilitate capital investment and economic growth.

The research proves that the success of the EU growth strategy «Europe 2020», also depends on the institutional factors, for example good management, rule of law and corruption control. Public trust should be obtained with ethical behaviour. The conscience of the private sector to follow ethical norms and a corruption free business environment are significant. The cooperation of national and international institutions is very significant at the European and the world scale. The role of international organizations is very important because they – the EU, the Council of Europe (CE), the UN and others – develop unified requirements, not pushing them as the only truth, but providing a direction in the understanding of the corruption notion. Any market system in which competitors compete regularly is also a system of cooperation that defines the rules of the competitive game. Globalization is economic competition at the world level between corporations, at the same time, globalization is an ongoing process of transformation – the process of accelerated economic, social, and political integration (Pereira, 2010, p. 22-23) [15].

Until now, no country has managed to completely eliminate or prevent corruption, it is possible only to limit it and maintain at a particular level. Preventing corruption usually means a set of measures to be performed in the national or international environment in different fields, the goal of which is limiting, combating or prevention of corruption.

According to the research of Transparency International, Freedom House, the corruption level is lower in those countries that ensure larger information disclosure and transparency. Although most of the Member States have appropriate legislation regarding corruption, the implementation of transparency standards is uneven (Transparency International, 2013) [16]. In some Member States, the effective anti-corruption policy partly

derives from the traditions of disclosure, transparency and document disclosure. In some cases, the positive impact on responsibility regarding the transparency of public spending has been the initiative of civil society. In some Member States a wide range of measures have been performed to provide the publication of annual reports and balance sheets of public institutions in real time in user convenient formats, comprising more detailed information about the service costs (The Commission's report, 2014, p. 30) [13].

Recent investigations in the EU about a potential misappropriation of resources, corruptive behaviours and legalization of illegally obtained resources regarding state owned companies indicate that there exists a high corruption risk in this area, as well as that control and prevention are weak (The Commission's report, 2014, p. 18) [13].

Our studies have found that standards, codes and guidelines as well as legislation for reporting have increased and that an ever-increasing number of reporting companies and organisations go hand in hand with more regulation, as well as with more guidance for environmental, social and governance (ESG) reporting published either by international organisations such as GRI or by individual Member States.

ESG reporting of state-owned companies has increased significantly, and in 2011 more than 94 per cent of the companies have issued GRI reports. The introduction of the new guidelines has affected the companies to varying degrees. The reporting requirement has led to increased commitment and awareness, more structured work and more structured processes, and sustainability issues have moved up the agenda and been given a higher priority by managements and boards (CSR, 2011, p. 28-29) [10].

The GRI guidelines regarding anti-corruption aspects list are following:

- total number and percentage of operations assessed for risks related to corruption and the significant risks identified;
- communication and training on anti-corruption policies and procedures;
- confirmed incidents of corruption and actions taken (GRI, 2014, p. 77) [7].

Preparing reports based on these guidelines, the corruption risks and the effectiveness of internal controls to reduce these risks, the performed measures to react to corruption cases – the code of ethics which especially emphasises corruptive behaviours, fraud prohibition and ban on the conflict of interests, declarations, limitations to accept and offer gifts, explanatory measures and employee training, discussions on preventing the conflict of interests, reducing the fraud and corruption risks are always evaluated.

Such measures as the Fraud risk management plan and the Fraud Risk Management Committee ensure company's effective management (Latvenergo, 2012, p. 65) [17].

In our opinion introducing the reporting practice about the measures taken to reduce the corruption risk could be a factor refraining from corruption and it can help to resolve the violations while they are taking place.

Conclusions and suggestions

To Sum up our investigation, which included observing of literature, Reports of European Commission and related surveys, we would mark key issue. To compare used definitions of sustainability reporting, we got conclusion that they include important field of information disclosure about company's environmental management systems, risk control, understandable business activities. Sustainability reporting is fundamental to an organization's integrated thinking and reporting process. Information availability and disclosure are those principles that allow avoiding corruptive situations and relations.

The management capacities of SMEs are often more limited so that the costs involved with sustainability reporting are

relatively much higher than for large companies. For such small companies, the inclusion of environmental and social matters in the financial annual report is a viable alternative to a special sustainability report. Governments of the EU Member States have developed the miscellaneous initiatives «Working Group on Transparency, Reporting and Standards» in Spain. Bulgaria had identified the need to regulate the obligation to draw up social reports in its national action plan. Extensive discussions had been taking place on the future of reporting in Poland.

Most of the EU Member States that faced big economic problems admitted the significance of corruption related issues. Corruption has political, economic and social consequences. Member States which control mechanisms are rather weak should take measures to reduce the existing risks and risks of allocating public resources in order to improve transparency and support fair competition.

The transparency and disclosure of the social and environmental information provided by companies can be a factor preventing corruption, which facilitates provision of equal circumstances for competition. In some Member States that apply a far-reaching transparency policy the civil society has become active in monitoring those processes that are important in the domestic market which is a subject of significant corruption risks.

Transparency related to informing and education the public about preventing corruption and application of social accounting principles should be encouraged, based on the standards of the Global Reporting Initiative. At the national level, there is a need to provide unified transparency standards, corresponding to the context of each Member State in order to ensure better transparency regarding the operation of public and private sector and partnership, which affect the corruption possibility risks and the country's capability to control them.

References

1. McMichael, P. (2012). *Development and social change. A global perspective (sociology for a new century series)*. Los Angeles: SAGE Publications, Inc.
2. Borghesi, S., & Vercelli, A. (2008). *Global sustainability social and environmental conditions*. New York: Palgrave Macmillan.
3. Gray, R., & Milne, J. (2013). Whither ecology? The triple bottom line, the global reporting initiative, and corporate sustainability reporting. *Journal of Business Ethics*, 118(1), 13-29.
4. Ball, A., & Osborne, P. (2011). *Social accounting and public management. Accountability for the common good*. Routledge: Taylor & Francis Group.
5. Ft. Com/lexicon (2014). *Definition from Financial times lexicon*. Retrieved from <http://lexicon.ft.com/>
6. KPMG (2013). *The KPMG survey of corporate responsibility reporting 2013*. Retrieved from <http://www.kpmg.com/global/en/>
7. GRI (2014). *Sustainability reporting guidelines*. Retrieved from <https://www.globalreporting.org/resource/library/GRI4-Part1>
8. European Commission (2013). *Proposal for a Directive of the European Parliament and of the Council amending Council Directives 78/660/EEC and 83/349/EEC as regards disclosure of non-financial and diversity information by certain large companies and groups*. Retrieved from <http://eur-lex.europa.eu>
9. Starkey, R., & Welford, R. (2000). *The Earths can Reader in Business and Sustainable Development*. London.
10. CSR (2011). *Corporate social responsibility, national public policies in the EU*. Retrieved from <http://ec.europa.eu/>
11. Tyurina, A. (2005). *The shadow economy in Latvia* Moscow: Scientific book (in Russ.).
12. Pride, W. M., Hughes, R. J., & Kapoor, J. R. (2014). *Business* (12th edition). Retrieved from <http://gocengage.com/>
13. European Commission (2014). *EU anti-corruption Report* (Report from the Commission to the Council and the European Parliament). Retrieved from <http://ec.europa.eu/dgs/home-affairs/> (in Latvian).
14. Vilks, A., & Kipena, K. (2000). *Corruption*. Riga: Business Information Service (in Latvian).
15. Pereira, L.C.B. (2010). *Globalization and competition. Why some emerging countries succeed while others fall behind*. Cambridge: University Press.
16. Transparency International (2013). *Corruption perceptions index*. Retrieved from <http://cpi.transparency.org/>
17. Latvenergo AS (2012). *Sustainability and Annual Report of Latvenergo company*. Retrieved from <http://www.latvenergo.lv/> (in Latvian).

Received 22.07.2014