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Environmental reporting in the Spanish wind energy sector: an institutional view☆

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ABSTRACT

The aim of this paper is to explore the relevance of institutional influences on corporate environmental reporting practices. The wind energy sector in Spain was chosen for analysis because of its rapid growth and significant impact on moves towards cleaner energy production. A content analysis of recent sustainability reports (2005–2009) from seven main wind energy companies facilitated a longitudinal comparison of the levels of compliance with Global Reporting Initiative indicators of sustainability. Results show that initial institutional pressures for reporting have been replaced by imitation by companies of each other's practices leading to a reduction in the differences between environmental disclosures. Results confirm the importance of examining different institutional pressures on disclosure practices to development of policy. However, a key finding is that the disclosures have been minimal and their lack of effectiveness and unreliability mean they are not conducive to the notion of increasing transparency in the wind generated clean energy electricity sector. As a result the credibility of relying on a voluntary sustainability standard, such as the Global Reporting Initiative (GRI), as an incentive for informative environmental reporting is challenged.

1. Introduction

A considerable problem faced by an increasing number of organisations is how to respond to the growing institutional pressures for reporting on social and environmental impacts of their businesses (Burritt and Schaltegger, 2010; Qian et al., 2011). An increase in demand is evident for non-financial, physical information to which businesses are responding either from necessity (Larrinaga et al., 2002) or in a voluntary capacity (KPMG, 2008; Llena et al., 2007). While compulsory reporting standards are beginning to concentrate on the reporting of relevant environmental information (Cormier et al., 2005) some companies are adopting a pro-active, voluntary approach to social and environmental reporting (Daub, 2005). The Global Reporting Initiative seeks to address the issue through voluntary guidelines (Aerts et al., 2006; Bebbington et al., 2000; DeTienne and Lewis, 2005). Coinciding with introduction of the GRI guidelines voluntary information has begun to increase in popularity. Hence, physical environmental reporting has come to complement monetary reporting for internal decision making and external legitimacy (Gray et al., 1996) and an increasing number of companies are devoting greater attention to environmental and social issues in their reporting (Daub, 2005) with the prospect of corporate environmental credibility growing over time (University of Cambridge, 2003).

Companies that are operating in environmentally sensitive sectors are leading the response to the information demands of society (KPMG, 2011). Organisations undertaking such sensitive activities need to be held accountable to relevant stakeholders, such as regulators, local communities, the public, financiers, employees and the environment itself. Such accountability commences with the provision of an account, and only then can stakeholders hold organisations accountable (Adams and Frost, 2008; Bebbington and Gray, 2001; Wheeler and Elkington, 2001). Along with demands for accountability from stakeholders, interest in the nature of the account reported has grown within the European Union and elsewhere (Ijiri, 1983).

Environmentally sensitive sectors such as chemicals, electricity generation and manufacturing have received specific attention from the public and policy makers as greater accountability is sought (Harte and Owen, 1991; Rahaman et al., 2004). As cleaner energy production replaces the tarnished fossil fuel based economies of recent years this raises the issue of the expected

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accountability of such new industries such as solar, wind, wave and nuclear energy for their own performance. It might be expected that these sectors would be keen to be associated with green transparency of operations and activities. One of these sectors, the wind industry, has been selected for close examination in relation to institutional pressures for environmental reporting. The wind industry is of growing importance but nowhere more so than in Spain where the current study has its focus on wind energy companies (Reiche and Bechberger, 2004). Hence, environmental reporting in the wind energy industry is examined with the purpose of analysing changes in voluntary reporting over time as the industry develops in a climate of societal support for the green energy industry.

Whereas regulated disclosure requirements should lead to uniformity, voluntary disclosure should lead to empirical differences being observed between companies as they strive for competitive advantage and increased legitimacy of their activities (DiMaggio and Powell, 1983). When voluntarily drawing up sustainability reports, companies tend to adopt the GRI guidelines using a method aimed at providing a series of indicators based on the demands of stakeholders (Moneva and Llena, 2000). Yet, as the standards are unregulated, there is likely to be limited consistency amongst reports. The increase in separate reports dealing with environmental and social issues enables expansion beyond traditional stakeholders (regulators, shareholders and investors, customers and suppliers) to include other groups, such as society, public administration and the media (Adams and Larrinaga, 2007; Gray et al., 1996; Moneva and Llena, 2000). With improved tools such as the GRI available to support sustainability reporting (Global Reporting Initiative, 2006; Global Reporting Initiative, 2008) the following two research questions are to the fore:

RQ1: What institutional pressures are leading to the increasing practice of issuing GRI-based sustainability reports in the Spanish wind industry?

RQ2: How comprehensive are the GRI-based sustainability reports, and in particular how effective and reliable are they in communicating trustworthy information about sustainability performance of the wind companies?

These research questions are addressed in Section 2 within the changing institutional setting evident in the Spanish wind sector. A conventional approach to the paper follows with methods used (Section 3), results obtained from empirical data (Section 4) and conclusions drawn following a discussion (Section 5).

2. Theoretical framework

Research question 1 requires identification of institutional pressures on Spanish wind industry organisations to produce sustainability reports. New institutional sociology can be used to explain the influence of institutions on company behaviour and the forces that drive behaviour towards sustainability reporting (Carpernter and Feroz, 1998; Deegan and Rankin, 1999). Hence, new institutional sociology is the framework adopted to help understand reporting behaviour in new clean energy wind sector in Spain. New institutional sociology proposes that the survival of an organisation requires efficient production (Mostaque and Gunasekaran, 2002) and social support from stakeholders and in the context of a green industry it also needs to demonstrate green credentials to its institutional participants. To acquire such support the organisation should be transparent in both its management (Wartick and Cochran, 1985) and operations (Wartick and Cochran, 1985). In other words, stakeholders demand reliable information about economic, social and environmental issues and their integration to continue to lend their support to the organisation (Deegan and Rankin, 1999). A key issue of concern for organisations is the need to provide transparency through proactive communication of social obligations arising from routine business practices (Chaudhri and Wang, 2007). Accounting systems play an essential role in the gathering of relevant data and the elaboration and communication of companies' performance based on the data enhancing transparency of management and operations through reporting (Adams and Frost, 2008; Gray, 2006a; O'Dwyer, 2003). Companies quoted on the IBEX-35, the benchmark index on the Spanish stock exchange, consider issues related to corporate social responsibility and corporate citizenship as of great importance (Capriotti and Moreno, 2007). But research consistently indicates that information disclosed by companies does not always satisfy the needs of special interest groups, normally lacks objectivity and has poor quality content (Adams and Frost, 2008; Gray, 2006b; O'Dwyer, 2003).

Isomorphism, a key concept in new institutional sociology, is a process whereby one organisation becomes similar to another organisation by adopting the characteristics of the other organisation (DiMaggio and Powell, 1983). Different isomorphic processes have the potential to play a key role in the level, quality and variety of information gathered and reported by companies. Hence explanation of different isomorphic pressures provides a foundation for understanding the drivers of homogeneity in reporting practice, in particular sustainability reporting. DiMaggio and Powell (1983) identify three mechanisms through which isomorphism is instituted: coercive, mimetic and normative. These mechanisms are well established (DiMaggio and Powell, 1983, 1991) and will not be rehearsed further here except to outline their significance for the argument being developed in relation to the research questions. As information is the main element that an organisation can use as a base from which to manage relationships with stakeholders in order to obtain their support or approval (Bebbington and Gray, 2001), a necessary foundation for policy initiatives designed to improve transparency is an understanding of the different isomorphic institutional drivers of behaviour.

The importance of *coercive isomorphism* is the focus on a regulatory perspective affecting behaviour. It is distinguishable from other isomorphic pressures which assume that individuals act following expectations from other organisations and professions (DiMaggio and Powell, 1983) rather than dictats from the institutional environment. In the present context coercive isomorphism is seen to be most powerful with new legislation being introduced for sustainability reporting. In addition, organisations can experience coercive regulative pressures through pressure to align with societal protocols, such as the need for the sustainability of cleaner energy production to be made more transparent.

The significance of *mimetic isomorphism* is that companies can imitate actions of the most successful in the institutional environment. The performance of these successful companies, which are considered as leaders in their sector, forces other companies in the same sector to become like them, as they face the same environmental conditions (DiMaggio and Powell, 1991). In short, good practice pervades because of competitive pressure. Literature shows that institutional constraints, such as country, industry concentration, size of company and media exposure, affect mimetic corporate environmental reporting (Aerts et al., 2006; Cormier and Magnan, 1999; Cormier et al., 2005), all of which might be relevant to the wind energy industry and its reporting practice. Reporting under the GRI voluntary standard has been used to legitimise management decisions and actions by companies in recent years but general engagement with sustainable development remains low (Moneva et al., 2006). In addition, size of the organisation has been found to be directly linked with pressure to provide