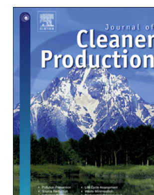
Journal of Cleaner Production 191 (2018) 350–360

Contents lists available at ScienceDirect

Journal of Cleaner Production

journal homepage: www.elsevier.com/locate/jclepro



Reporting on long-term value creation by Canadian companies: A longitudinal assessment

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ARTICLE INFO

Article history:
Received 30 August 2017
Received in revised form
21 January 2018
Accepted 27 March 2018
Available online 27 April 2018

Keywords:
Long-term value creation
Integrated reporting
Corporate social responsibility (CSR)
Canadian extractive sector
Sustainability
Stakeholders

ABSTRACT

In the wake of the global financial crisis, a new wave of stakeholder demands has developed calling on companies to shift focus towards long-term value creation and moving away from a short-term earnings emphasis. Aligned with these demands, urgent calls for more transparency and improved reporting on both financial as well as non-financial reports have been made. The objective of this study was to analyze longitudinal disclosure quality and quantity trends in reporting on long-term value creation of 19 publicly traded Canadian energy and mining companies. Content analysis was conducted in order to assess disclosure on long-term value creation in annual financial and sustainability reports. The empirical results show that the companies experienced a substantial increase in the reporting disclosure quality and quantity. This was true for both disclosure in the annual financial reports as well as in the sustainability reports. These results supported the hypotheses that Canadian public energy and mining companies had increased their quantity and quality of long-term value creation disclosure in 2014 as compared to 2012. Even though increases in disclosure quality could be observed (especially in the areas of governance, responsible work practices, outside relationships and risk management), overall disclosure quality (especially in areas such as connectivity between financials and sustainability sections, materiality analysis, projects with high climate risk exposure, cost of energy, responsible work practices, incentives and remuneration) were still at a low level. Therefore, recommendations were developed to introduce globally accepted reporting standards and an external assurance framework in order to restore and sustain stakeholder confidence and trust. In the short-term, a collaborative approach of reporting framework development was proposed while in the long run, mandatory implementation of global standards and assurance is urgently recommended. This early mover study contributes to the existing literature by providing a first of its kind longitudinal analysis of quality and quantity of long-term value creation reporting for publicly listed Canadian companies in the mining and energy industry sector.

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1. Introduction

For many stakeholders, the 2008 global financial crisis marked a profound attitude change regarding the short-term orientation of companies. A new trend towards what has been coined long-terminism and with it reporting on long-term value creation have been established and their effects have been expanding ever since. In order to analyze non-financial reporting levels, it was important to understand the different types of non-mandatory global reporting and the various players involved as well as to understand reporting practices in the extractive industry.

1.1. Sustainability reporting

By preparing and publishing a sustainability report, a company discloses how it has been performing at a social, environmental and economic level. "Sustainability reporting" is often synonymous with corporate social responsibility (CSR) or other terms that provide details on the environmental, economic, and social aspects of an organization's performance during a fiscal year. Currently, publishing sustainability reports is only a requirement in a few countries in the world (Dilling, 2016).

A number of organizations have developed guidelines for measuring and reporting CSR such as the United Nations Global Compact (UNGC) and the OECD Guidelines for Multinational Enterprises (Wilburn and Wilburn, 2016). Additionally, there are other

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https://doi.org/10.1016/j.jclepro.2018.03.286
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guidelines specific to industries or topics like the International Organization for Standardization (ISO) 26000, CDP (formerly Carbon Disclosure Project), Principles for Responsible Investment (PRI) Framework, Greenhous Gas Protocol (GHG), Protocol Corporate Standard, Climate Change Reporting Framework, International Labour Organization (ILO), the Tripartite declaration of principles concentrating multinational enterprises and social policy, and the Core Labour Standards (CLS). Other initiatives or forums include the International Business Leaders Forum (IBLF Global, 2017), the Caux Round Table (CRT, 2014), Ceres (2017), the Climate Disclosure Standards Board (CDSB, 2017), the Task Force on Climate-Related Financial Disclosures (TCFD) and the European Commission Expert Group on Sustainable Finance (European Commission, 2017). In order to achieve greater transparency as well as better comparability between reporting frameworks, standards and requirements, the Corporate Register, a global online directory of corporate responsibility (CR) reports has recently been launched (Corporate Register, 2017a). Other communication platforms include the Corporate Reporting Dialogue (Corporate Register, 2017b) and the Reporting Exchange (The Reporting Exchange, 2017). Then there are organizations that promote CSR and standards. The Sustainability Accounting Standards Board (SASB), for example, is an American organization with a mandate to develop and establish industry-based sustainability standards (SASB, 2014).

There are also organization that are committed to developing global standards for sustainability reporting. The Global Reporting Initiative (GRI), which is an international independent organization started its operations more than twenty years ago and its standards are, by far, the most adopted sustainability disclosure standard today (Hicks, 2017). In October 2016, the Global Reporting Initiative (GRI) launched its GRI Standards after previously releasing four sets of guidelines (GRI, 2016). Governments of 42 countries refer to the GRI standards (KPMG, 2016).

In 2001, France became one of the few countries to require CSR reporting (Chauvey et al., 2014). In December 2014, the European Union adopted Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups (European Commission, 2014). Germany, for example, implemented the new CSR-regulation for non-financial information in the annual report (in which it requires companies to disclose information on their environmental and social aspects (Bundesanzeiger, 2017). In the United States, the Securities and Exchange Commission (SEC) is currently reviewing its approach to sustainability reporting. In 2016, the SEC issued what they called a "Concept Release" asking for public feedback on 340 topics on financial disclosure (SEC, 2016). In Canada, the government issued a CSR implementation guide in which it provides guidance regarding sustainability reporting (Government of Canada, 2017).

1.2. Integrated reporting

As mentioned before, during and after the 2008 global financial crisis, many stakeholders became sorely aware that corporate reporting did not provide sufficient information to properly assess corporate risk as it failed to address the corporate long-term value creation process. This in addition to experiencing the fallout of many global corporate scandals, led to more and more voices asking not only for better reporting but also for long-term and integrated thinking. For this movement to continue, it was and is crucial that all stakeholders understand the links between financial and non-financial results and the turbulent business environment that companies are facing (Churet and Eccles, 2014).

Of all the corporate reports, financial reports have been found the least valuable source of information when it comes to sustainability indicators and information diversity (Frost et al., 2005). Neither the financial report nor the sustainability report has been considered to provide sufficient information when determining a company's long-term value creation (Boesso, 2003). This continued to stand in contrast to the growing need that shareholders, standard setters and other stakeholders have for information related to the long-term strategy and business environment factors of an organization (KPMG Canada, 2014).

Over the years, the International Integrated Reporting Council (IIRC) has established itself as global partnership between standard setters, organizations, regulatory bodies, investors, and others that promotes discussion and communication on organizational value creation as "the next step in corporate reporting" (IIRC, 2015). The IIRC has developed the International Integrated Reporting <IR> Framework as an improved version of what is currently reported in financial and non-financial reports (IIRC, 2015). IR has been described as future-oriented reporting that can explain links between main performance drivers (Higgins et al., 2014). The current <IR> Framework claims that the main objective of integrated reporting is to clearly identify how the organization creates long-term value with investors as the primary audience.

Some of the standards setters have joined forces in the global standard setting process. In 2013, GRI and IIRC announced that they intend deepen their cooperation (GRI & IIRC, 2013). In the same year, the IIRC signed a Memorandum of understanding with the SASB to reduce internal barriers and duplication and to achieve more efficient reporting practices and processes (IIRC, 2016). More recently, the GRI and the IIRC have started to work together to clarify how companies can use both the GRI Standards and the <IR> Framework in their reporting (GRI, 2017).

At a global level, integrated reporting increasingly has been supported by a slew of organizations including the main accounting firms (e.g. Deloitte UK, 2016; EY, 2016; KPMG, 2013; PwC, 2016), international and national professional organizations (e.g. ACCA, 2017; CPA Canada, 2015, and others) and regulatory bodies including the SASB, the IFAC and IASB (e.g. IAS Plus, 2013; IIRC, 2016). Many governments, security commissions, and regulators have started to establish new research support initiatives, guidelines as well as actual regulations, including Japan (METI, 2015), the UK (ICAS, 2017), Singapore (De Villiers et al., 2014), and India (SEBI, 2017). Other countries have also started working on integrated reporting such as Germany (PwC, 2014), France (Ministère des Affaires Etrangères, 2012) and Brazil (KPMG, 2016).

By 2020, the IIRC wants to achieve mandatory integrated reporting for all public companies, however, except for certain companies in Denmark and South Africa, integrated reporting is currently not yet a requirement (Sierra-Garcia et al., 2013).[1] There have been movements in various countries that suggest implementation of the <IR> framework. A study by the GRI, however, found that only one third of companies have implemented <IR>. Approximately 50% of all integrated reports actually were two individual publications put together as one with just a few mutual references (GRI, 2015).

South Africa and Japan have been named as being in the lead in adopting IR but currently around 1500 global companies are already using or referencing IR (IIRC, 2017).

Recent research has also shown that the integrated reporting perspective will produce more relevant reports (ACCA, 2017; Adams, 2017). Another research study shows that the reporting practices of Danish companies had improved significantly due to the nonfinancial reporting legislation (Deloitte, 2017). In Germany,

[1] In this context, it should be mentioned that the requirements for integrated reporting for companies listed at the Johannesburg Stock Exchange differ from the IIRC Framework.

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