PRESENT TENDENCIES IN ENTERPRISE'S PERFORMANCE APPRECIATION "SUSTAINABILITY PERFORMANCE "

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Abstract

Social and economic postponements at the global level, financial and political instability, big corporatist scandals, global warming imposed changes without precedent in economy, facilitating the passing from the performance concept to the one of "sustainability performance". The new approach, also known under the name of "triple bottom line" attracted the public's attention during the latest years determining a big part of the companies to change their attitude, values, orientation in favor of forming responsible visions concerning reporting that should integrate three aspects – economic performance, social performance, and environmental performance. Such "sustainability" reporting is possible through application of guiding lines offered by Global Reporting Initiative (GRI) that reached the third generation called GRI G3 Guidelines in October 2006, that proves to be the best "compatibility standard", general accepted as sustainability reporting standards.

Keywords: sustainability performance, sustainability reporting

JEL Classification*:* L25, Q56

Introduction

The main objective for every enterprise is represented by assuring firm's viability under internal and international competition conditions, respecting the restrictions imposed by sustainable development. The key issue of sustainable development is constituted by reconciliation between the two human aspirations: the necessity of continuation of economic and social development as well as environment's protection and improvement (*as the only way to welfare of both present and future generations*).

The sustainability challenges of today are unprecedented, and people want to know how well-placed a company is to evolve to meet the sustainability challenge. Accountability for organisational economic, environmental, and social performance, also known as "sustainability performance" or the "triple bottom line", has captured the attention of the public in recent years as part of the growing effort to define the sustainability agenda.

Reporting sustainability performance brings several benefits among which we can remind: improvement of operational efficiency, increase of the social and environmental

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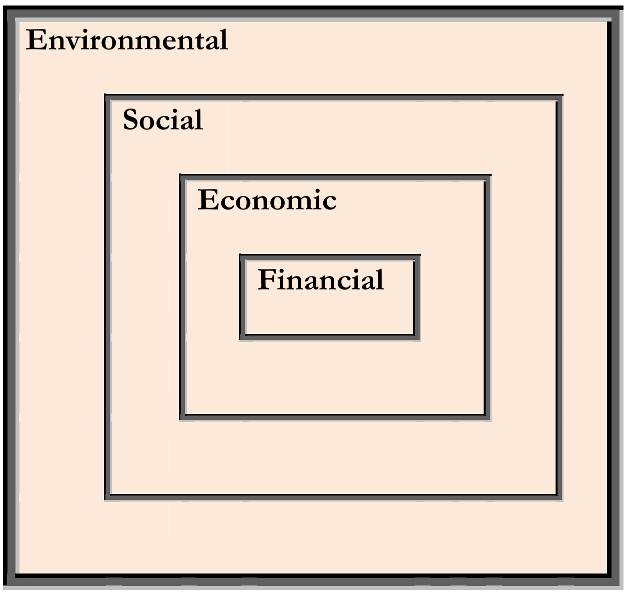
responsibility, the ability of approaching the business partners on a similar level, intra-governmental cooperation increase, public image improvement.

1. The sustainability performance concept

The economic dimension is imminent connected to the two pillars of *sustainable development* – social and environmental performance. These aspects are suggestively represented by Tuppen and Zadek (2000) (see figure 1). The actions developed in the economic – financial sphere of a firm have impact upon social environment, but mostly upon the environment, the main concern being the one of taking action in such manner of letting the future generations a world that would offer better conditions.

Financial dimension is very good represented in reporting enterprises performance, it is shown in a global study initiated by Deloitte Touche Tohmatsu in December 2006 to which 175 Directors and members of Directing Boards participated.

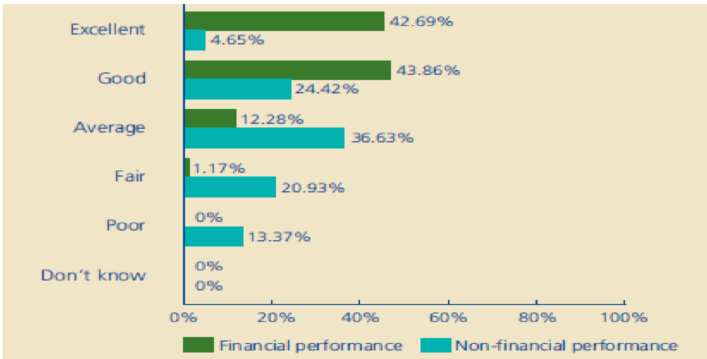


Source: Tuppen and Zadek (2000) cited by Slater Alyson in *GRI's Economic Performance Indicators: Measuring Impacts One Stakeholder at a Time*

Figure 1: *Subsets of Sustainability*

Current reports *often do not provide a complete picture of public agency* performance, particularly in the area of *environmental and social impacts*. Regarding *financial performance*, most companies surveyed gave themselves high marks, with *87* percent describing their record as either excellent (42.69 percent) or good (44.86 percent). But in stark contrast, regarding the measuring and monitoring of *non-financial performance*, only *29* percent describe their record as either excellent (4.65 percent) or good (24.42

percent). Furthermore, 34 percent describe their records as merely fair (20.93 percent) or poor (13.37 percent) (see figure 2) [Deloitte, (2007)].



Source: Deloitte. 2007. *In the dark II: What many boards and executives STILL don't know about the health of their businesses*

Figure 2 *Financial and non-financial aspects of performance*

In the trial of expansion the applicability sphere for nonfinancial performance parameters, companies deal with different *obstacles* [Deloitte, (2007)]:

- *undeveloped tools* - fifty-five percent of respondents say that the tools for analyzing non-financial measures at their companies are not as developed as their financial counterparts;
- *skepticism* - forty-eight percent of respondents say that people in their companies are skeptical that non-financial metrics directly affect the health of their companies;
- *accountability* - forty-four percent of executives in the survey say that establishing clear accountability for non-financial performance metrics is difficult;
- *lack of familiarity* - forty-one percent say management is too unfamiliar with non-financial measures; and an equal percentage of respondents say the same of board members;
- *lack of benchmarking data* - twenty-one percent say their use of nonfinancial performance metrics is inhibited by a lack of comparable data from competitors;
- *time constraints* - nineteen percent of executives say that senior management and the board lack the time needed to feel comfortable using a new set of metrics;
- *competitive concerns* - six percent of respondents say that they worry that competitors might gain valuable intelligence from non-financial performance metrics.

Although, numerous companies will improve, in time, business performance and financial results, through a *"balanced combination of financial and nonfinancial objectives, and the correct identification of aspects such as work engagements, innovation, clients' satisfaction is considered mainly an art than science".*

The microeconomic dimension of the microeconomic sustainable development concept is represented by *Corporate Social Responsibility* (CSR) that supposes "*the firm's* *orientation and attitude for integration in their correct strategy and activity, voluntary, of concerns (projects and actions) with social character, for a more friendly and clean environment, under the conditions of insuring the business economic success that is realized*" [Ciuca and Draga , (2007)].

2. Reporting sustainability performance

Sustainability reporting became a formal part of the global agenda when governments from around the world committed at the 2002 United Nations World Summit on Sustainable Development (WSSD) "*to encourage industry to improve social and environmental performance through voluntary initiatives including…public reporting on environmental and social performance*" [United Nations, (2002)].

United Nations proved permanent preoccupation for social, environmental issues, asking firms to respect the *10 principles* defined in 2008 through Global Compact (see table 1). Companies should adopt, sustain and promote fundamental values from human rights domain, of work standards, environment and fight against corruption.

Table 1 The Ten Principles developed by the United Nations Global Compact

Human Rights
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.
Labour Standards
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.
Environment
Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: United Nations Global Compact, The Ten Principles, 2002

International Organisms elaborated *standards* required by the market and that are relevant on global level helping therefore to the creation of a "sustainable" world, among which we can remind:

- *ISO 14001* environmental management standard (the most used standard by corporations) and ISO 26000 *Guidance Standard on Social Responsibility*, the application of the latter being possible since 2010: standards elaborated by The International Organization for Standardization (ISO);

- *SA 8000 - Social Accountability 8000:* elaborated by Social Accountability International (SAI), known until recently as the Council on Economic Priorities Accreditation Agency*;*

- *ISAE 3000*, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information:* elaborated by International Federation of Accountants – IFAC through International Auditing and Assurance Standards Board IAASB;

- *AA1000 - Accountability 1000, Assurance Standard:* elaborated by ISEA - the Institute for Social and Ethical Accountability (ISEA also known as Accountability);

- *GRI G3 Guidelines*: 3rd version elaborated in 2006 by Global Reporting Initiative (GRI), that proves to be *the best "compatibility standard"*.

Global Reporting Initiative(GRI) being constituted in 1997, at the initiative of CERES (Coalition for Environmentally Responsible Economies) in partnership with the United Nations Environment Program, is a non-profit international organization that elaborates and publishes the guidelines for reporting economic, environmental and social performance reporting – also called " sustainability performance".

The guidelines are developed through a unique consulting process with multi-stakeholder that involves representatives from reporting organizations and informs users all over the world. The first G1 Guidelines was published in 2000 and then revise in 2002, the guidelines entering from October 2006 in their *third generation* being also called the *GRI G3 Guidelines*.

For a correct performance reporting, the understanding of *principles*, *performance indicators* and *reporting process* is necessary.

In addition to the new structure, format, and applicability, the ***principles*** have been grouped in two categories [GRI, (2006)]:

a) those that help define report content:

- ***Materiality***: The report covers the issues that are most relevant and important to the company/organization.

- ***Stakeholder inclusiveness***: The report is focused on the most important stakeholders and addresses their concerns.

- ***Sustainability context:*** The degree to which the report explains the company/organization's own performance in relation to data about broader sustainability trends.

- ***Completeness***: The scope of the report and how well it enables readers to assess the organization's performance, and

b) those that help ensure quality of reported information:

- ***Balance*** The report should reflect positive and negative aspects of the organization's performance to enable a reasoned assessment of overall performance.

- ***Comparability*** Issues and information should be selected, compiled, and reported consistently. Reported information should be presented in a manner that enables stakeholders to analyze changes in the organization's performance over time, and could support analysis relative to other organizations.

- *Context Accuracy* The reported information should be sufficiently accurate and detailed for stakeholders to assess the reporting organization's performance.

- *Timeliness* Reporting occurs on a regular schedule and information is available in time for stakeholders to make informed decisions.

- *Clarity* Information should be made available in a manner that is understandable and accessible to stakeholders using the report.

- *Reliability* Information and processes used in the preparation of a report should be gathered, recorded, compiled, analyzed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information.

Performance indicators are structured on three directions, as follows:

a) economic dimension (9 performance indicators);

b) environmental dimension (30 performance indicators);

c) social dimension (40 performance indicators).

The economic dimension of sustainability concerns the organization's impacts on the economic conditions of its stakeholders and on economic systems at local, national, and global levels. The economic indicators illustrate:

- *flow of capital among different stakeholders; and*
- *main economic impacts of the organization* throughout society.

The environmental dimension of sustainability concerns an organization's impacts on living and non-living natural systems, including ecosystems, land, air, and water. Environmental Indicators cover performance related to inputs (e.g., material, energy, water) and outputs (e.g., emissions, effluents, waste). In addition, they cover performance related to biodiversity, environmental compliance, and other relevant information such as environmental expenditure and the impacts of products and services.

The social dimension of sustainability concerns the impacts an organization has on the social systems within which it operates.

GRI G3 Guidelines is used by more than 1000 firms all over the world in the process of performance reporting, becoming the first recognized standard, general accepted as *sustainability reporting standard.*

Yearly, CERES and the Association of Chartered Certified Accountants – the biggest international organism for accountants with headquarters in London grants prizes for Best *Sustainability Report.* After the competition from January 2009 General Electric Company was classed on the first position with the report: GE Resetting Responsibilities 2008 - Citizenship Report written for years 2007-2008. It is important to mention that the report was written in concordance with GRI G3 Guidelines, Level A.

The G3 reflects two things [GRI, (2007)]:

1) the closest the world community could come to consensus on what sustainability reporting framework should look like; and

2) the best cumulative, *global knowledge* and *experience* on reporting on certain issues.

Conclusions

The new approach on the performance was the consequence of multiple *factors,* among which we remind:

- *globalization phenomenon* that has as consequence *the limitation of state's purpose,* the multinational companies development, the expansion of cross-border trade with major consequences upon the financial, humane, material and informational resources;
- *implementation of new informational technologies* that allows the obtaining, processing and transmitting (dissemination) of information in useful time; universal XBRL language, the internet makes possible the implementation of G3 guideline for any interested organization (all information is transmitted electronically and not on paper, an economy of resources being realized);
- *managers increasing interest* for knowing all firms dimensions concerning performance, especially of the aspect connected to nonfinancial performance;
- *the investors and suppliers interest* more and more preoccupied by moral firms guidance;
- *diversification of consumers' needs* facilitated the apparition of new, ecologic products;
- *employees concerns* with regard to work conditions, work place stability; the incentives offered by other companies oblige the company to attract offers under the condition of concurrence and not at last to maintain a permanent dialog

The implementation of sustainability reporting until the level of small and medium firms will allow careful monitoring of *sustainability performance*, will reestablish trust, will insure transparence and liquidity necessary to financial markets, in such way that they will be able to insure their critical function of circulating system of modern economy. From all the above mentioned issues, it is imposed that the application of social responsibility will not remain at the optional phase, but will be an obligation for any organization.

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