

EVALUATION OF ENVIRONMENTAL REPORTING FOR COMPANIES LISTED ON THE LONDON STOCK EXCHANGE

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Environmental aspects have become significant for an increasing number of companies and can have, under certain circumstances, a significant impact on financial statements. A large number of studies can be outlined in time analyzing the variation of environmental reporting (Deegan et al, 2002; O'Donovan, 2002; Holland and Foo, 2003; Nyquist, 2003; Cormier et al, 2005; Yusoff et al, 2006; Jorgensen and Sodorstrom, 2006; Taylor and Shan, 2007; Sumiani et al, 2007). The main objective targeted by this study is the evaluation of environmental reporting for the European companies listed on the London Stock Exchange. In order to achieve the proposed objective, we have completed an longitudinal and transversal analysis of environmental reporting within companies listed on FTSE 100, monitoring first of all the way in which these companies report non-financial and financial aspects related to environmental impact as well as how these reports are being audited. For each annual statement or sustainable report, we have analyzed the level of environmental reporting. The evaluation of how information on environmental impact are being reported is based on four categories of information: information on indicators (technical, financial) that would reflect the environmental impact (water, air, soil), information regarding the financial indicators (investments, assets and other environmental costs, debts and provisions), non-financial information (related to the company's commitment, objectives, programs, management, future perspectives etc), information on environmental audit. Analysing the results we have obtained, the following can be outlined a certain increasing trend on the level and relevance of environmental information supplied for the companies listed on FTSE 100. Only 22 of the analysed companies are reporting the environmental performance indicators recommended by accredited bodies such as the GRI Guidelines (the most complex guidance in this respect). 20 of the 48 analysed companies have audited such information, thus increasing the relevance of this type of information. The paper contribute to the understanding of environmental reporting at international level, creating an image of the quality of environmental informations provided by the most representative companies at international level.

Keywords: environmental reporting, companies, London Stock Exchange, applicative research, environmental aspects

JEL Classification: M49 , Q56

1.Introduction

Gray (Gray et. all., 1996) considers that financial reports within a company, social and environmental reporting and financial accounting included, should be framed in pattern of responsibility (accountability model) according to valid regulations. The first steps suggested by Rob Gray in developing such a system of environmental and social reporting would be the identification of the target group and purpose of such a report, followed by specification of how the company will be able to supply information as a whole. The purpose of the annual report, in Gray's opinion, is to release responsibility towards the society. Due to the fact that information needs cannot be satisfied in full, Gray believes that an environmental balance (eco-balance) and a social balance would be sufficient for those interested to be able to have an image regarding the social and environmental performance. Gray sets the financial, social and environmental dimensions on equal standing, all considered as equally important, both for the company and for

the users. As reporting environmental information remains internationally voluntary, it leads to major differences in the quality and quantity of environmental information reported by companies from various sectors and countries. The economic crisis brought into question the manner in which the systems of reporting ensure a faithful image of the provided information (Groșanu and Răchișan, 2010). Verifying the objectivity of certain information can be achieved by means of audit process. The same as the environmental information presented in the financial statements, the information included in the environmental reports and sustainable reports are also the subject of the audit process. In a study directed by KPMG, on the publication of environmental information, it has been proven that most companies audit their environmental reports independently from their financial statements and that the number of companies auditing their environmental reports is increasing (Bențianu and Georgescu, 2008).

The main objective targeted by this study is the evaluation of environmental reporting for the European companies listed on the London Stock Exchange. In order to achieve the proposed objective, we have completed an longitudinal and transversal analysis of environmental reporting within companies listed on FTSE 100, monitoring first of all the way in which these companies report non-financial and financial aspects related to environmental impact as well as how these reports are being audited.

2. Analysis of Literature

A large number of studies can be outlined in time analyzing the variation of environmental reporting, through time and space, either on company, activity sector or country level:

a) Studies analyzing the variation of environmental reporting within companies from various countries (Fekrat et al, 1996; Stittle et al, 1997; Williams, 1999; Buhr and Freedman, 2001; Holland and Foo, 2003; Nyquist, 2003; Yusoff et al, 2006; Jorgensen and Sodorstrom, 2006).

b) Studies analyzing the variation of environmental reporting in a certain country for various companies from the same sector or different sectors of activity (Gamble et al, 1995; Deegan and Rankin, 1996; Walden and Schwartz, 1997; Cormier and Magnan, 1997; Brown and Deegan, 1998; Larrinaga et al, 2002; Deegan et al, 2002; O'Donovan, 2002; Cormier et al, 2005; Taylor and Shan, 2007; Sumiani et al, 2007).

Within the companies listed on the London Stock Exchange, we have only selected the companies listed on FTSE 100, companies with the highest public exposure, reporting the largest number of voluntary information. From the total of 101 companies listed on the FTSE 100, we have restricted the study to companies operating in industries with a certain environmental impact, as a series of studies have proven that the industry (sector of activity wherein the company operates) influences the environmental reporting (Milne and Patten, 2002). Holland and Foo (2003) have compared in their analysis (UK/SUA) the way in which the legislative framework can influence the performance and the level of environmental reporting within four industries (chemical, mining, oil and gas, constructions and energy), considered to be relevant with regard to environmental impact. Cormier et al (2005) has captured the factors that determine the level of environmental reporting within German companies listed on the stock market, with a sample of 304 companies from the following industries: consumption goods and services, manufacture of industrial products and energy, water, energy, chemical products and medicines, food and drinks industry, high technology industry, heavy industry. All of these studies reflect the increasing level of environmental reporting in developed countries such as Germany, Great Britain, USA, Australia.

3. Research Methodology

We believe to be irrelevant from the point of view of reported environmental information that we analyze the quality and quantity of environmental reporting within the companies operating in

sectors of activity with small risk for pollution. Thus we have eliminated from the sample the companies operating in activity sectors with low pollution risk, such as: banking, investment funds, financial companies, insurance, services, intermediaries, mass-media, telecommunication. As a result, from the total of 101 companies, by eliminating the companies operating in the above mentioned sectors of activity, we have been left with 48 companies in the sample, companies that can be viewed together with their respective sectors, in the Appendix 1. For each analysed company, we have chosen four annual statements (for the period between 2006 and 2009), as well as other reports including possible reporting from the company with regard to environmental impact (sustainable report, environmental report, social accountability report etc.). These reports are available on the website of each company. For the total of 48 companies, we have analysed 192 annual statements as well as 87 other reports (prepared and available only for some companies).

For each annual statement or sustainable report, we have analyzed the level of environmental reporting. The evaluation of how information on environmental impact are being reported is based on four categories of information and the following encoding system (in-house encoding system attempting to consider the relevance of reported information):

I. Information on indicators (technical, financial) that would reflect the environmental impact (water, air, soil). For this category of information we have utilized an encoding system from 0 to 2, as follows:

-0, the company does not report such indicators;

-1, the company reports such indicators, but the reported indicators are not accredited / stipulated by the various reporting standards (GRI Guidelines);

-2, the company reports such indicators, and the reported indicators are accredited / stipulated by the various reporting standards (example: the company applies the GRI Guidelines); also, if the company applies the GRI Guidelines, we have also marked the level of application thereof (for details referring to the levels of application visit <http://www.globalreporting.org/ReportingFramework/ApplicationLevels/>).

II. Information regarding the financial indicators (investments, assets and other environmental costs, debts and provisions). For this indicator, we have used an encoding from 0 to 2, as follows:

-0, the company does not report environmental costs or debts;

-1, the company reports such indicators, but the indicators reported are not separated, not detailed on activities / sources / types of expenses;

-2, the company reports such indicators, and the reported indicators are separated, detailed on activities / sources / types of expenses.

III. Non-financial information (related to the company's commitment, objectives, programs, management, future perspectives etc) that would reflect the company's environmental performance. We have used the following encoding system:

-0, the company does not report such information;

-1, the company reports information of general character;

-2, the company reports information of specific character (indicators, correlated with the company's policy).

IV. Information on environmental audit:

-0, the company does not certify information on environmental impact (does not perform environmental audit);

-1, the company certifies information on environmental impact.

This method of encoding the quality of environmental information is used in the study performed by Comier et al (Comier et al, 2005) and offers the following advantages (Comier et al, 2005: 15):

- It allows the integration of different types of information into a single figure, comparable between companies, in terms of relevance;
- It allows the performance of a qualitative scoring for the environmental information provided by each company;
- Irrespective of the subjectivism of the process, it eliminates non-relevant information, considering only the relevant pieces of information.

4. Research Results

The level of environmental reporting for each category of analyzed information (a. Information on indicators (technical, financial) reflecting the environmental impact (water, air, soil); b. Information on financial indicators (investments, assets and other environmental costs, debts and provisions); c. Non-financial information (on the company's commitment, objectives, programs, management, future perspectives etc) reflecting the company's environmental performance; d. Information on the environmental audit) are presented in the Appendix 1. Analysing the results we have obtained, the following can be outlined:

- From the point of view of progress, we can notice a certain increasing trend on the level and relevance of environmental information supplied for the companies listed on FTSE 100;
- With regards to the information on indicators (technical, financial) reflecting the environmental impact (water, air, soil) we can notice that only 22 of the analysed companies are reporting the environmental performance indicators recommended by accredited bodies such as the GRI Guidelines (the most complex guidance in this respect). From the 22 companies reporting such indicators, only 13 of them have been accredited by this body (the GRI Guidelines) as companies applying (by a level C, C+, B, B+, A, A+) these indicators (the "+" means the indicators are being audited by an external auditor);
- With regards to information on financial indicators such as investments, assets and other environmental costs, debts and provisions, we can notice that the large majority of analysed companies offer adequate details within their annual statements for this type of information;
- As well as in other analysed studies, the non-financial information (related to the company's commitment, objectives, programs, management, future perspectives etc) reflecting environmental performance of the company are being predominantly exposed within the annual statements or sustainable reports;
- With regards to the auditing of environmental information included in the annual statement or the sustainable report, only 20 of the 48 analysed companies have audited such information, thus increasing the relevance of this type of information;
- 70% of the analyzed companies have an environmental committee or a committee in charge with social accountability within their corporate governance structures, a fact which should impact positively on the reported environmental information;

5. Conclusions

Although we have been able to notice an ascending trend on the level and relevance of environmental information supplied within the companies listed on FTSE 100, the majority of information provided have a non-financial character.

Indicators such as emissions level are being reported by the majority of companies, but the relevance of such indicators is questionable, because only 22 of the companies report such indicators on the basis of a framework or reporting guidance and only 27% of them certify such indicators by means of external bodies.

From the point of view of auditing environmental information, more than half of the analysed companies have not audited the supplied environmental information, which raises a question mark with regards to the objectivity of such information.

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Company	Activity	Information on indicators (technical)		Information regarding the financial indicators		Nonfinancial informations		Environmental audit		Environmental committee (2 – has environmental committee, 1 – has environmental department, 0 – don't have)	
AFRICAN BARRICK GOLD PLC	Mining	2	2	2	2	2	2	2	2	2	2
AMEC PLC	Oil Equipment	1	1	1	1	2	2	2	2	0	0
ANTOFAGASTA	Mining	1	1	1	1	2	2	2	2	0	0
ASSOCIATED BRITISH FOODS	Food Producers	1	1	1	1	2	2	2	2	1	1
ASTRAZENECA PLC	Pharmaceuticals & Biotech	1	1	1	1	2	2	2	2	0	0
BAE SYSTEMS	Aerospace & Defence	1	1	1	1	2	2	2	2	0	0
BG GROUP	Oil & Gas Producers	2(A+)	2(A+)	1	1	2	2	2	2	1	1
BHP BILLITON	Mining	2(A+)	2(A+)	2(A+)	2	2	2	2	2	1	1
BP	Oil & Gas Producers	2(A+)	2(A+)	2(A+)	2	2	2	2	2	1	1
BRITISH AMERICAN TOBACCO	Tobacco	1	2	2	2	2	2	2	2	0	0
BURBERRY GROUP	Personal Goods	2	1	1	1	2	2	2	2	1	1
CAIRN ENERGY PLC	Oil & Gas Producers	1	1	1	1	2	2	2	2	0	0
CENTRICA PLC	Gas, Water & Multiutilities	1	1	1	1	2	2	2	2	1	1
DIAGEO	Beverages	2(A+)	2(A+)	2(A+)	2(A+)	2	2	2	2	1	1
ESSAR ENERGY PLC	Oil & Gas Producers	1	1	1	1	2	2	2	2	0	0
EURASIAN NATURAL RESOURCES CORP	Mining	2	2	2	2	2	2	2	2	0	0
FRESNILLO PLC	Mining	2	2	2	2	2	2	2	2	0	0
GKN	Automobiles & Parts	1	1	1	1	2	2	2	2	0	0
GLAXOSMITHKLINE	Pharmaceuticals & Biotech	2	2	2	2	2	2	2	2	1	1
IMI	Industrial Engineering	1	1	1	1	2	2	2	2	0	0
IMPERIAL TOBACCO GROUP	Tobacco	1	1	1	1	2	2	2	2	0	0
INTERNATIONAL POWER	Electricity	1	1	1	1	2	2	2	2	0	0
JOHNSON MATTHEY	Chemicals	2(B+)	2(B+)	2(B)	2(B)	2	2	2	2	1	1
KAZAKHMYS	Mining	1	1	1	1	2	2	2	2	0	0
LONMIN	Mining	2(B+)	2(B+)	1	1	2	2	2	2	1	1
MORRISON(W.M.)SUPERMARKETS	Food & Drug Retailers	1	1	1	1	2	2	2	2	0	0
NATIONAL GRID	Gas, Water & Multiutilities	1	1	1	1	2	2	2	2	0	0
PETROFAC	Oil Equipment	1	1	1	1	2	2	2	2	0	0
RANDGOLD RESOURCES	Mining	2	2	1	1	2	2	2	2	1	1
RECKITT BENCKISER GROUP PLC	Household Goods	2(A+)	2(A+)	2(A+)	2(B+)	2	2	2	2	1	1
REXAM	General Industrials	1	1	1	1	2	2	2	2	0	0
RIO TINTO	Mining	2(A+)	2(A+)	2(A+)	2(A+)	1	1	1	1	0	0
ROLLS ROYCE GROUP	Aerospace & Defence	1	1	1	1	2	2	2	2	1	1
ROYAL DUTCH SHELL	Oil & Gas Producers	2(A+)	2(A+)	2(A+)	2(A+)	2	2	2	2	0	0
SABMILLER	Beverages	2(B+)	2(B+)	2	2	2	2	2	2	1	1
SAINSBURY(J)	Food & Drug Retailers	1	1	1	1	2	2	2	2	0	0
SCOTTISH & SOUTHERN ENERGY	Electricity	1	1	1	1	2	2	2	2	0	0
SEVERN TRENT	Gas, Water & Multiutilities	2	2	2	2	2	2	2	2	0	0
SHIRE PLC	Pharmaceuticals & Biotech	1	1	1	1	2	2	2	2	0	0
SMITH & NEPHEW	Health Care Equipment	2	2	2	2	2	2	2	2	0	0
SMITHS GROUP	General Industrials	1	1	1	1	2	2	2	2	1	1
TESCO	Food & Drug Retailers	2	2	2	2	1	1	1	1	0	0
TULLOW OIL PLC	Oil & Gas Producers	2(C+)	2(C+)	2(C+)	2(C+)	2	2	2	2	1	1

