Sustainability Accounting, Management and Policy Journal

Environmental, social and governance disclosures in Europe

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Abstract

Purpose – The purpose of this paper is to shed light on the European Union's (EU) latest regulatory principles for environmental, social and governance (ESG) disclosures. It explains how some of the EU's member states are ratifying the EU Commission's directives on ESG reporting by introducing intelligent, substantive and reflexive regulations.

Design/methodology/approach – Following a review of EU publications and relevant theoretical underpinnings, this paper reports on the EU member states' national policies for ESG reporting and disclosures.

Findings – The EU has recently revised a number of tools and instruments for the reporting of financial and non-financial information, including the EU's modernisation directive, the EU's directive on the disclosure of non-financial and diversity information, the EU Energy Efficiency Directive, the European pollutant release and transfer register, the EU emission trading scheme, the integrated pollution prevention and control directive, among others.

Practical implications – Although all member states are transposing these new EU directives, to date, there are no specific requirements in relation to the type of non-financial indicators that can be included in annual reports. Moreover, there is a need for further empirical evidence that analyse how these regulations may (or may not) affect government entities and big corporations.

Social implications – Several EU countries are integrating reporting frameworks that require the engagement of relevant stakeholders (including shareholders) to foster a constructive environment that may lead to continuous improvements in ESG disclosures.

Originality/value – EU countries are opting for a mix of voluntary and mandatory measures that improve ESG disclosures in their respective jurisdictions. This contribution indicates that there is scope for national governments to give further guidance to civil society and corporate business to comply with the latest EU developments in ESG reporting. When European entities respond to regulatory pressures, they are also addressing ESG and economic deficits for the benefit of all stakeholders.

Keywords Corporate social responsibility, Global Compact, UN Global Compact, Global reporting initiative, Corporate sustainability and responsibility, EU CSR policy, ESG, Sustainability reporting, CSR reporting, EU Modernisation Directive

Paper type Case study

Introduction

Corporate social responsibility (CSR) has become a well-established concept "whereby companies integrate social and environmental concerns in their business operations and

Sustainability Accounting, Management and Policy Journal
Vol. 6 No. 2, 2015
pp. 224-242

2040-8021
DOI 10.1108/SAMPJ-10-2014-0065

The author would like to thank the anonymous reviewers for their insightful remarks and suggestions.

in their interaction with stakeholders on a voluntary basis" (EU, 2002). CSR is now being adopted by more companies, investors and business schools. At the same time, the civil society, academia and media are also becoming very familiar with the CSR agenda. CSR necessitates legal compliance as well as "customary ethics" (Carroll, 1991). In this context, it may appear that a motivation for CSR may be borne out as a necessity to offset the threat of regulation. Evidently, many companies prefer to be one step ahead of government legislation or intervention to anticipate social pressures. Arguably, there is always scope for business and government to become more aligned with regards to the regulatory aspect of CSR. Governments can take an active leading role in triggering CSR behaviour among its stakeholders. The businesses themselves will realise that appropriate CSR regulation can possibly bring in economic value as well (Porter and Kramer, 2011).

This is also consonant with the European Union's (EU) Lisbon Strategy (2000) and the Gothenburg Sustainability Strategy (2001). According to the European Council's Lisbon Summit:

> CSR can make a contribution towards achieving the strategic goal of becoming, the most competitive and dynamic knowledge-based economy (referring to the EU) in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion (Eurofound, 2003).

In 2001, the Gothenburg Sustainability Strategy became the latest strategic goal for the EU, which supplemented the Lisbon Strategy. The environmental protection has been given its due importance and was added to the previous two pillars of economic growth and social cohesion (EU, 2014a). On that occasion, there was mention of other trends; including climate change, public health, natural resources, sustainable transport, aging population, social exclusion, among other issues, have also been recognised and addressed. However, as it was the case for the Lisbon Strategy, there were significant implementation failures. To respond to these deficits, the EU Commission had proposed to reaffirm the "new approach to policy making and policy coherence" to strengthen its ownership and to improve co-operation with public and private actors, at all levels. EU (2011) had reiterated the importance of CSR as it put forward a new definition for this notion. The term CSR has now been described as the enterprises' responsibility for their impacts on society. The EU recommended that the norms of CSR ought to be considered as appropriate model bases for applicable legislation and for collective agreements between social partners.

The Organisation for Economic Cooperation and Development (OECD) Guidelines, the United Nations Global Compact (UNGC) and the International Labour Organisation (ILO) Declaration have also received prominent recognition by the governments of the eight largest economies (G8) countries and other states. Their instruments or initiatives are often referenced in academia, or used by business practitioners (Rasche, 2009). Therefore, this paper sheds light on the latest government-initiated policies on CSR in a European context. It reiterates some of the EU member states' priorities for CSR, whilst making specific reference to recent publications on CSR public policies. It focuses on CSR, sustainability reporting and disclosure.

The CSR language

Although the subject of CSR is quite contemporary, it may still be considered as an inherently complex concept by some commentators. It may appear that this dynamic and holistic notion conveys a wide variety of meanings in different contexts. CSR has evolved to meet changing demands in complex environments. Notwithstanding, this concept is context-dependent, as it is often embedded in different historical and cultural traditions. This is particularly evident in Europe, where institutions had long been renowned for their "implicit CSR" much before the concept of CSR was even discussed in an explicit manner. Moreover, CSR often embraces and connects to the triple bottom-line issues: the economy, society and the environment. Nowadays, CSR is actively pursued and applied by business practitioners, society and government. It may appear that European governments are increasingly using CSR as a vehicle for their public policy goals. Despite its complex nature, the Anglo nations and some other European countries were among the first in the world to adopt public policies that promoted CSR among their businesses. In 2006 and 2007, the EU Commission had taken stock of these policies and published two editions of the "Corporate Social Responsibility: National public policies in the European Union". These compendiums had provided rich information on the member states' approaches to CSR. Lately, EU policy has put forward an action agenda that covered the following eight areas:

(1) *Enhancing the visibility of CSR and disseminating good practices*: This includes the creation of a European award, and the establishment of sector-based platforms for enterprises and stakeholders to make commitments and jointly monitor progress.
(2) *Improving and tracking levels of trust in business*: The Commission will launch a public debate on the role and potential of enterprises, and organise surveys on citizen trust in business.
(3) *Improving self- and co-regulation processes*: The Commission proposes to develop a short protocol to guide the development of future self- and co-regulation initiatives.
(4) *Enhancing market reward for CSR*: This means leveraging EU policies in the fields of consumption, investment and public procurement to promote market reward for responsible business conduct.
(5) *Improving company disclosure of social and environmental information*: The new policy confirms the Commission's intention to bring forward a new legislative proposal on this issue.
(6) *Further integrating CSR into education, training and research*: The Commission will provide further support for education and training in the field of CSR, and explore opportunities for funding more research.
(7) Emphasising the importance of national and sub-national CSR policies.
(8) Better aligning European and global approaches to CSR:
    - the Commission highlights the OECD Guidelines for Multinational Enterprises;
    - the ten principles of the UN Global Compact;
    - the UN Guiding Principles on Business and Human Rights;
    - the ILO Tripartite Declaration of Principles on Multinational Enterprises and Social Policy; and
    - the ISO 26000 Guidance Standard on Social Responsibility" (source: EU, 2011).

CSR made in Europe

In the past, CSR has offered a voluntary complement to traditional hard regulation by persuading private businesses to tackle both domestic and global issues. This way, CSR has supported public goals and helped to close governance gaps. Notwithstanding, the EU is recognising that there are economic and financial measures which can facilitate CSR engagement by corporate businesses. For instance, the use of financial incentives and market forces may include tax rebates and abatements, subsidies and awards (EU, 2008). In addition, informational instruments can raise awareness through the dissemination of knowledge during campaigns, conferences, seminars, training courses and websites. Businesses are urged by governments to reduce their potentially negative impact of their operations on society and the environment (Kotler, 2011). For this reason, there are instances where CSR practices started to be mandated through legislative and binding regulations. Therefore, it may appear that the EU indicated that the public policy case for CSR can pay off for national governments (Knopf *et al.*, 2010), just as the business case can benefit companies (Carroll and Shabana, 2010). Consequently, this contribution maintains that ever more EU member states should forge relationships with key stakeholders in industry and civil society to enhance their socially responsible and sustainable behaviours (Camilleri, 2015).

In the light of significant differences in mentalities across different member states and within particular economic sectors, the current EU framework on the disclosure of the non-financial reports still does not provide a specific "one-size-fits-all" solution (EU, 2011). For the time being, the instruments for sustainable reporting are not compulsory, although quite a lot of CSR tools and standards have already been developed by many stakeholders, including non-governmental organisations. Arguably, such initiatives may have directed enterprises to laudable CSR behaviours by providing good guidance for best-practice through workshops, formal policy guidelines and media releases (EU, 2011). Nonetheless, the European governments' perception is also being drawn from a myriad of intelligent, substantive and reflexive tools and guidelines for responsible business practices that are continuously being drawn from EU institutions.

The EU's directive on disclosure of non-financial information

On 29 September 2014, the European Council has introduced amendments to Accounting Directive (2013/34/EU). The EU Commission has been mandated by the European Parliament to develop these non-binding guidelines on the details of what non-financial information ought to be disclosed by large "public interest entities" operating within EU countries It is hoped that non-financial reporting will cover environmental, human rights, anti-corruption and bribery matters, as expressed in the UN Guiding Principles on Business and Human Rights (the "Ruggie Principles") and OECD's Guidelines for Multinational Enterprises (ECCJ, 2014).

This recent, directive has marked a step forward towards the hardening of human rights obligations for large organisations with more than 500 employees. At the moment, there are approximately 6,000 large undertakings and groups across the EU. Public interest entities include all the undertakings that are listed on an EU stock exchange, as well as some credit institutions, insurance undertakings and other businesses, so designated by member states.

In a nutshell, these non-financial disclosures should shed light on the corporate businesses' social and environmentally responsible policies and practices. They will feature a brief description of the undertaking's business model, including their due diligence processes resulting from their impact of their operations. This EU directive encourages corporates to use relevant non-financial key performance indicators on environmental matters, including greenhouse gas emissions, water and air pollution, the use of (non-)renewable energy and on health and safety.

With regards to social- and employee-related matters, large organisations ought to implement ILO conventions that promote fair working conditions for employees. The corporate disclosure of non-financial information can include topics such as social dialogue with stakeholders, information and consultation rights, trade union rights, health and safety, gender equality, among other issues. Businesses should also explain how they are preventing human rights abuses and/or fighting corruption and bribery.

Through this directive, the EU commission emphasises materiality and transparency in non-financial reporting. It also brought up the subject of diversity at the corporate board levels. It has outlined specific reference criteria that may foster wider diversity in the composition of boards (e.g. age, gender, educational and professional background). The EU Commission has even suggested that this transparency requirement complements the draft directive about women on boards.

This new directive will still allow a certain degree of flexibility in the disclosures' requirements. As a matter of fact, at the moment it does not require undertakings to have policies covering all CSR matters. Yet, businesses need to provide a clear and reasoned explanation for not complying with this directive. Therefore, non-financial disclosures do not necessarily require comprehensive reporting on CSR matters (although this is encouraged by the Commission), but only the disclosure of information on policies, outcomes and risks (ECCJ, 2014). Moreover, this directive gives undertakings the option to rely on international, European or national frameworks (e.g. the UN Global Compact, ISO 26000) in the light of the undertaking's characteristics and business environment. It is envisaged that the first CSR reports will be published in financial year 2017 (ECCJ, 2014).

The EU's directive on disclosure of transparency

On 12 June 2013, the EU adopted Directive 2013/50/EU that amended the previous transparency directive (2004/109/EC). This latest revision has also addressed stakeholders' concerns regarding their disclosure of environmental and social information. Therefore, it also mentions environmental, social and governance (ESG) disclosures alongside financial reporting obligations of listed companies. This directive is focused on the transparency requirements for corporations. Hence, it may be considered as a disclosure directive with mandatory requirements on corporate performance.

The EU's Energy Efficient Directive

The EU member states are required to draft National Energy Efficiency Plans that report on adopted measures (or on those that are planned to be adopted) to implement the main elements of the Energy Efficiency Directive (EED, 2012/27/EU). All EU countries are required to achieve a certain amount of final energy savings over the period (1 January 2014-31 December 2020) by using energy efficiency obligations schemes or other targeted policy measures that drive energy efficiency improvements in households, industries and transport sectors. The EED entered into force on the

4 December 2012 to establish a common framework of measures for energy efficiency within the EU. EED laid down specific rules to remove barriers in the energy market and to overcome certain market failures that impede energy efficiency (EU, 2012b). It also provides for the establishment of indicative national energy efficiency targets for 2020. All the EU-28 countries are urged to use energy more efficiently at all stages of the energy chain – from the transformation of energy, through its distribution until its final consumption.

These EED measures may also translate to significant energy savings for consumers themselves. For instance, this directive has proposed that consumers ought to access easy and free-of-charge data on their real-time (and historical) energy consumption patterns. Moreover, this directive also recommended that large enterprises should carry out an energy audit at least every four years, with the first energy assessment should be held before the 5 December 2015. Arguably, the EU's EED is not quite specific on its disclosure requirements as, for example, the Australian's governments "Building Energy Efficiency Disclosure Regulations" (ComLaw, 2010).

Yet, the EU's very own EED also promotes energy efficiency disclosures among small and medium enterprises (SMEs). As a matter of fact, small businesses are incentivised to undergo energy audits to help them identify the potential for reduced energy consumption. As from 1 January 2014, this directive advised the public sector to lead by example by renovating 3 per cent of its buildings and by including energy efficiency considerations in public procurement. EED has even set realistic deadlines for further improvements in energy efficiencies in energy generation, the monitoring of efficiency levels of new energy generation capacities, national assessments for co-generation and district heating potential and measures.

It goes without saying that the requirements laid down in the EED directive are minimum requirements that do not prevent any member state from maintaining or introducing even more stringent measures. As from 2013, every member state has to report on the progress achieved towards national energy efficiency targets in accordance with Part 1 of Annex XIV (EU, 2012b).

Integrated Pollution Prevention and Control Directive

The Integrated Pollution Prevention and Control (IPPC) Directive has recently been codified (Directive 2008/1/EC of the European Parliament and of the Council of 15 January 2008 concerning integrated pollution prevention and control). On 21 December 2007, the EU has adopted a proposal for industrial emissions. This legislative instrument still offers the highest level of protection for the environment and human health (IPPC, 2014) The IPPC directive requires industrial and agricultural activities with a high pollution potential to have a permit. This permit can only be issued if certain environmental conditions are met, so that the companies (hailing from the energy industries, production and processing of metals, mineral industry, chemical industry, waste management, livestock farming, etc.) bear responsibility for preventing and reducing any pollution they may cause. To receive a permit, an industrial or agricultural installation must comply with certain basic obligations. In particular, it must: use all appropriate pollution-prevention measures, namely, the best available techniques (which produce the least waste, use less hazardous substances, enable the substances generated to be recovered and recycled, etc.); prevent all large-scale pollution; prevent, recycle or dispose of waste in the least polluting way possible; use energy efficiently;

ensure accident prevention and damage limitation; return sites to their original state when the activity is over (IPPC, 2013). In addition:

> […] the decision to issue a permit must contain a number of specific requirements, including: emission limit values for polluting substances (with the exception of greenhouse gases if the emission trading scheme applies); any soil, water and air protection measures required; waste management measures; measures to be taken in exceptional circumstances (leaks, malfunctions, temporary or permanent stoppages, etc.); minimisation of long-distance or trans-boundary pollution; release monitoring and all other appropriate measures (IPPC, 2013).

European pollutant release and transfer register (E-PRTR)

E-PRTR Regulation 166/2006/EC came into force in February 2006 (EU, 2014c). This regulation requires operators of facilities to report on emissions and specific substances. The E-PRTR is serving as a Europe-wide register of industrial and non-industrial emissions into air, water and land, and off-site transfers of waste water and waste. It also includes pertinent information from specific and diffuse sources.

The E-PRTR is the Europe-wide register that provides easily accessible key environmental data from industrial facilities in EU member states and in Iceland, Liechtenstein, Norway, Serbia and Switzerland. It replaced and improved upon the previous European Pollutant Emission Register. This new register contains data reported annually by more than 30,000 industrial facilities covering 65 economic activities across Europe (EU, 2014c).

For each facility, information is provided concerning the amounts of pollutant releases to air, water and land as well as off-site transfers of waste and of pollutants in waste water from a list of 91 key pollutants including heavy metals, pesticides, greenhouse gases and dioxins from 2007 onwards. Some information on releases from diffuse sources is also available and will be gradually enhanced.

The register contributes to transparency and public participation in environmental decision-making. It implements for the European Community the UNECE (United Nations Economic Commission for Europe) PRTR Protocol to the Aarhus Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (EU, 2014c).

Emissions trading scheme (EU ETS)

The EU ETS combats climate change as it is a tool that aims to reduce industrial greenhouse gas emissions, cost effectively. EU ETS is an international system for trading greenhouse gas emission allowances. It covers more than 11,000 power stations and industrial plants in 31 countries, as well as airlines (EU ETS, 2014). A "cap and trade" principle sets the total amount of certain greenhouse gases that can be emitted by factories, power plants and other installations in the system. This capping has been reduced over time, so that the total emissions fall. Hence, the price of carbon is very low and there are huge excessive allowances on the market. In fact, many experts in the field argue that this trading scheme is currently dysfunctional (Hartmann *et al.*, 2013).

Nevertheless, it is envisaged that in 2020, emissions from sectors covered by the EU ETS will be 21 per cent lower than those reported in 2005. By 2030, the Commission proposes that they would be 43 per cent lower (EU ETS, 2014). Within the cap, companies receive or buy emission allowances that they can trade with one another, as required. They can also buy limited amounts of international credits from emission-savings projects around the world. The limit on the total number of allowances available ensures that they have a value.

After each year, a company must surrender enough allowances to cover all its emissions, otherwise heavy fines are imposed. If a company reduces its emissions, it can keep the spare allowances to cover its future needs or else sell them to another company that is short of allowances. The flexibility that trading brings ensures that emissions are cut where it costs least to do so. By putting a price on carbon and thereby giving a financial value to each tonne of emissions saved, the EU ETS has placed climate change on the agenda of company boards and their financial departments across Europe. The EU ETS also acts as a major driver of investment in clean technologies and low-carbon solutions, particularly in developing countries (EU ETS, 2014).

Eco-Management and Audit Scheme

Eco-Management and Audit Scheme (EMAS) was initially established in 1995 and has been re-examined in 2009, in accordance with Regulation EC No. 1221/2009. EMAS is a reporting tool for companies and other organisations that necessitate continuous improvements in their environment performance. One of the aims of the latest revision (which came into force in January 2010) was to strengthen the rules on reporting through core performance indicators. Hence, environmental statements needed to become more relevant and comparable, as organisations are reporting their environmental performance on the basis of generic and sector-specific performance indicators. An important aspect of this audit scheme is that for the moment, the eco-management disclosures are entirely voluntary in nature.

The Modernisation Directive

The EU Accounts Modernisation Directive 2003/51 had amended the Accounting Directives. It stipulated that as from the year 2005 onwards, European companies should include both financial and, where appropriate, non-financial key performance indicators that are relevant to the particular business, including relevant information relating to environmental and employee matters (Mullerat, 2013; Van Wensen *et al.*, 2011). However, this directive also maintained that SMEs could be exempted from the non-financial reporting obligations in their annual statements (EU, 2012a, 2012b). Another amendment of the Accounting Directives (Directive 2006/46) had introduced an obligation for listed companies to include a corporate governance statement within their annual reports (FRC, 2012). By November 2009, all member states had "transposed" the Modernisation Directive and Directive 2006/46 within their national laws (Hąbek and Wolniak, 2013). Nevertheless, the Modernisation Directive itself did not stipulate any specific requirements in relation to the type of indicators that could be included in annual reports. However, individual EU governments have already undertaken relevant initiatives to provide companies with further guidance to comply with the statutory requirements.

National frameworks for CSR policy

To a certain extent, all EU countries have already implemented the Modernisation Directive. Some EU states have clearly distinguished between several subtypes of ESG reporting, such as "Environment in general", "Environment & Health & Safety", "Environment & Social", "Environment & Health & Safety & Community", "Corporate Social Responsibility", "Sustainability", "Integrated", "Social and Community" and

"Other" (Van Wensen *et al.*, 2011). Interestingly, there were many EU countries that have developed some form of mandatory requirements for ESG disclosures (Ioannou and Serafeim, 2014).

For instance, France was a pioneer in this regard when it enacted the "New Regulations" in 2001 (BSR, 2012; Whiteside *et al.*, 2010). Similarly, in Denmark, the 1,100 biggest companies as well as state-owned companies, institutional investors, mutual funds and listed financial businesses are expected to provide information about their CSR policies on a "comply or explain" basis in their annual financial reports (DCCA, 2010). Likewise, in Sweden, all state-owned companies have to publish their sustainability report (Ioannou and Serafeim, 2014). The management boards of stock-listed companies and the largest state-owned companies in The Netherlands are also required to report and be accountable to the supervisory board and their stakeholders on CSR issues (Ioannou and Serafeim, 2014; DCGC, 2014).

Evidently, other countries have followed suit as they developed their own voluntary standards or guidelines to support companies or other organisations. The latter countries often provide guidance on the integration of social and environmental issues in financial reporting or support certain rankings or awards that are related to sustainability reporting. Generally, it seems that there is a trend towards more government-driven initiatives that are related to reporting. This trend has also been exposed in a recent study that was carried out by KPMG in collaboration with Global Reporting Initiative (GRI), United Nations Environment Programme and the University of Stellenbosch Business School.

The UK Companies Act 2006 is an example of the successful implementation of the Modernisation Directive (Clark and Knight, 2008). All UK companies other than small ones have been mandated to provide information in their annual reports on their strategies, performance and risks (the so-called Business Review). Moreover, quoted companies (as defined in Section 385 of the UK Companies Act) ought to disclose information on environmental, workplace, social and community matters in their annual reviews. They are also expected to report relevant information about their companies' policies in relation to these matters and about their effectiveness. Recently, there were developments in specific thematic areas that were taking place in the UK context. For instance, this "business review" has been superseded with the strategic reporting requirement in the UK Companies Act. Following significant changes to the Companies Act (2013), which were introduced in time to affect 30 September 2013 year-ends; all big companies are now required to include information about environmental matters (including the impact of the company's business on the environment), the company's employees and social, community and human rights issues in their strategic report; Companies Act, 2013).

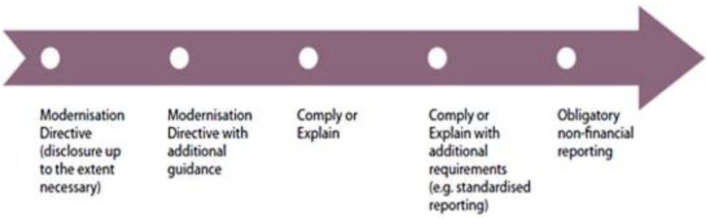
The Climate Change Act was enacted in the UK in 2008 (CCA, 2008). Government legislation on corporate reporting had mandated companies to measure and report on their emissions. The British Government has also reviewed how the reporting on greenhouse gas emissions was successful in addressing the previously set climate change objectives. The UK Government had committed itself to carbon reduction as it introduced certain regulations that required disclosures by companies (Kolk *et al.*, 2008). This new regulation has made it mandatory for all incorporated and listed companies in the UK; that are officially listed in a European Economic Area or admitted to trading on either the New York Stock Exchange (or NASDAQ) to include emissions data in their annual reporting. The UK has made a commitment to cut its carbon emissions to 50 per cent of the 1990 levels by 2025. The British Department for Environment, Food and Rural Affairs has estimated that this reporting will contribute to reducing CO_2 emissions by four million tonnes before the year 2021 (Gov.uk, 2012).

Moreover, the CRC Energy Efficiency Scheme (CRC) required some companies to measure all their emissions which were related to energy use (DECC, 2014). These businesses were required to report their emissions to the Environment Agency. Therefore, British organisations were obliged to comply with CRC and also had to submit a Footprint Report of their total energy and emissions, together with their annual reports.

In addition to the Modernisation Directive, a number of European countries have adopted certain laws and regulations that went beyond their requirements (Figure 1). Most of the EU member states have used a "comply or explain" approach rather than giving the option of not reporting.

Recently, the Danish government has published its "Action Plan for Corporate Social Responsibility". The aim of this action plan was twofold: to promote CSR among Danish businesses, and to promote sustainable growth both domestically and internationally (Danish National Action Plan, 2014). The action plan comprised 30 initiatives in four key areas: propagating business-driven social responsibility, promoting businesses' social responsibility through government activities, the corporate sector's climate responsibility and marketing Denmark for responsible growth. With its action plan, Denmark was among the forerunners in issuing a CSR strategy (Danish National Action Plan, 2014). The central strategic document has helped to focus and re-emphasise existing instruments and to formulate clear priorities. The Danish action plan was characterised by three strengths. Firstly, it has presented a smart mix of CSR instruments, ranging from informational web tools like the CSR Compass or partnering instruments like the Council on Corporate Social Responsibility to legal instruments, such as the much-debated legislation on reporting (CSR Compass, 2014). The CSR Compass does not mandate ESG disclosures. However, this instrument assists SMEs to understand how compliance to Danish legislation meets international CSR requirements. Secondly, it describes CSR as a means for improving the enterprises' competitiveness. Thirdly, Denmark is a very strong supporter of international CSR initiatives, as it is particularly evident from its ongoing support to the UN Global Compact and the UN Principles for Responsible Investment.

The government of Denmark reported on the businesses' compliance with its national initiatives. Van Wensen *et al.* (2011) reported that both the Danish and Swedish governments have contributed to a stronger uptake of sustainability reporting. At the



Source: Knopf *et al.* (2010)

Figure 1. Overview of public policy reporting frameworks

same time, many companies in these Scandinavian countries had already started reporting about their corporate social and environmental responsibility, much before they were coerced to do so. For instance, since 1996, polluting companies were required to publish stand-alone "green accounts" in Denmark. In 2001, environmental disclosures became mandatory in Danish businesses' annual accounts. During these past three years,"human rights" and "diversity in the board" were also included as reporting requirements for Danish entities (CBS, 2013). In Finland, the Ministry of Employment and the Economy, the Ministry of the Environment and different businesses organise annual competitions on ESG reporting (KPMG, 2010). Since 2008, these competitions have been broadened in scope. Now, they also include the term CSR in addition to environmental reporting.

The Swedish state-owned companies were required to publish their sustainability report since January 2008. The sustainability reports that complied with the GRI guidelines had to be quality-assured by independent checks. It transpired that 55 state-owned companies had published their sustainability reports based on the "comply or explain" principle (Van Wensen *et al.*, 2011). The state-owned companies' financial reports had to explain how the GRI guidelines were being applied as they were also expected to justify themselves on any significant deviations. ESG reporting of state-owned companies has increased dramatically. As a matter of fact, more than 94 per cent of these companies had issued their GRI reports. Sweden is now the second country in Europe with the highest number of GRI reports. A recent study by Uppsala University (commissioned by the Swedish Ministry of Enterprise) that has investigated the actual effects of the government's reporting requirements on the state-owned companies' sustainability performance revealed that the introduction of the new guidelines have affected the companies to varying degrees (Knopf *et al.*, 2010). It transpired that the companies that lacked previous experience in sustainability reporting have gone through a more extensive process of change than those that were already submitting sustainability reports. The study has indicated that the reporting requirements have led to increased commitment and awareness, more structured work and more structured processes. Moreover, it was more evident that the sustainability issues have moved up the agenda of organisations, as they were given higher priority by managements and boards.

In The Netherlands, CSR reporting had become mandatory in 2008 (Ioannou and Serafeim, 2014). The Dutch stock-listed companies were expected to report their non-financial performance on the basis of "comply or explain" (Knopf *et al.*, 2010). All stock exchange-listed companies registered in The Netherlands and with a balance sheet of more than €500 million were mandated to do so. These provisions were integrated into the Dutch code for corporate governance, which has been legally anchored in the Dutch Civil Code (DCGC, 2014). These obligations required companies to explain how they were implementing international best practice for their management and supervisory boards. An independent Monitoring Committee for Corporate Governance was also set up to ensure that the businesses complied with specific provisions of this code (DCGC, 2014). The Monitoring Committee also published regular reports on compliance in English.

Other existing instruments include sustainable public procurement policies whereby the governments, as buyers, can create a positive climate for sustainability reporting. The Dutch government had mandated the disclosure of ESG as a requirement for its suppliers in 2010 (Ioannou and Serafeim, 2014). Another example of a Dutch instrument that combined aspects of both economic and informational instruments is the recently updated Transparency Benchmark. Since 2004, it has been continuously developed and updated by the Ministry of Economic Affairs in The Netherlands. There was continuous dialogue with stakeholders that have translated to lower information costs for both companies and readers of CSR reports. To achieve this outcome, the Ministry had incurred the initial development costs of the transparency benchmarks and limited the participation to less than 100 companies (Knopf *et al.*, 2010). In 2010, this instrument was extended to a total of 500 companies. These included a number of state-owned companies, at the request of the Ministry of Finance.

In France, Article 53 of the first Grenelle Law of 3 August 2009 had set the target of extending the New Economic Regulation Act to large listed enterprises (Whiteside *et al.*, 2010). The regulation had extended the reporting obligation to majority-owned public companies. Some of the government's parastatal organisations had harmonised the sectoral indicators at the community level. Generally, they agreed with the principle of the recognition of the responsibility of parent companies over their subsidiary companies – in the event of serious environmental damage. Interestingly, France had also proposed a working framework (at the EU level) for the establishment of social and environmental standards that allowed companies to benchmark their non-financial performance with other organisations (Whiteside *et al.*, 2010).

Spain opted for additional legislation that was primarily directed at state-owned companies. Reporting by state-owned companies was mandated in Spain's Sustainable Economy Law, which was approved by the cabinet in March 2010 (Kessler and Cuerpo, 2011). This law also included various other disclosure requirements such as the remuneration of company directors. It is now compulsory for the Spanish state-owned companies to publish sustainability reports in accordance with commonly accepted standards. Spain had created incentives for companies to include or develop CSR policies, including reporting. Article 37 of the Sustainable Economy Law stipulates that:

> […] the government shall provide companies, especially SMEs, with guidance and indicators that provide support for self-assessment in relation to their social responsibility, as well as reporting models or references that are in line with international reporting frameworks (Knopf *et al.*, 2010).

The definitions of CSR indicators as well as their reporting mechanisms were developed in cooperation with the State Council (Kessler and Cuerpo, 2011). Moreover, the Spanish Law suggests that the companies that achieve the defined minimum threshold can qualify as socially responsible companies, if they decide to request recognition. Moreover, the official Spanish Credit Institute has partnered with a Caja Navarra (a regional savings bank) to promote reporting among SMEs. Caja Navarra has even offered its clients simple electronic tools that helped them to produce a standardised CSR report. Curiously, since there was this initiative more than 1,100 SMEs have prepared their first CSR report following the launch of this campaign in 2009 (Knopf *et al.*, 2010).

In Portugal, the Ministers' Council had adopted a resolution on the principles of good corporate governance of state companies. The Minister of Finance has been entrusted with its annual assessment and its implementation (Kessler and Cuerpo, 2011). Other related examples of legal initiatives also included mandatory reporting in specific areas of sustainability performance. For instance, in 2006, the Portuguese Department of

Transportation and Communications had mandated the companies that are under its guardianship to publish a sustainability report (KPMG, 2010). Similarly, Ireland's Credit Institutions Act (2008) stipulated that financial services companies have to issue a CSR report of their activities through the Irish Banking Federation. As from 2007 onwards, the companies that were listed in the alternative market were instructed to report their non-financial performance on a "comply or explain" basis (Knopf *et al.*, 2010).

The Czech Republic has implemented an award for CSR and quality management. To qualify for the National Prize of Quality, participants may publish a CSR report and submit it to government (Knopf *et al.*, 2010). This CSR report had to be developed according to a specific framework, which is readily available (and free) for download. All the reports are assessed by independent evaluators, who will adjudicate the best report and have it published.

The German Ministry of Labour and Social Affairs, in collaboration with the German Council for Sustainable Development, has also participated in a project that ranked the sustainability reports of industrial and service companies in Germany (Transparency International, 2012). Since 2009, there has also been a classification of the best sustainability reports that were prepared by SMEs (Knopf *et al.*, 2010). Some of the underlying objectives of such competitions are to benchmark best practices in sustainability reporting, to improve constructive competition between companies and to foster dialogue between different stakeholder groups. The ranking of the best sustainability reports is carried out by independent research organisations.

A number of upcoming initiatives are either in the planning phase or may still have to be approved by the EU governments. For example:

- The Spanish State Council on Corporate Social Responsibility has set up a "Working Group on Transparency, Reporting and Standards" (Knopf *et al.*, 2010). It is hoped that this working group will provide a professional guidance to organisations that are/shall be publishing their sustainability reports. Perhaps, there is a need to regulate further in the area of ESG reporting.
- The Italian National Contact Point, the Italian Bankers' Association and the Italian National Business Association have been cooperating to define a set of standards for non-financial reporting. Therefore, the organisations that are reporting a true and fair view of their socially responsible, environmentally sustainable or corporate governance practices may have their credit ratings appraised by Italian banks (Knopf *et al.*, 2010).
- The German CSR strategy (2008) maintained that the Federal Ministry of Employment and Social Affairs and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety had to publish CSR reports based on GRI and the EMAS declaration (Progress Report, 2008). These reports were published in the first reporting year following the launch of the strategy.
- In Belgium, the federal government decided to carry out a trial project concerning the application of ISO 26000 in government agencies (Knopf *et al.*, 2010). This initiative was linked to sustainability reporting that was also based on the guidelines of the GRI and was piloted with the Federal Public Planning Services Division for Sustainable Development.
- In Poland, CSR will be advanced in the form of an inter-ministerial working group (Martinuzzi *et al.*, 2011). Extensive discussions have been taking place on the future of

reporting in the Polish context. The working group has recently submitted its recommendations on increasing transparency and reliability, which will form the basis for future activities in the area of developing policy measures for ESG disclosure.

Discussion

Organisations are increasingly using a wide array of instruments, tools and channels to communicate their ESG reports to stakeholders. Most of the EU's new rules on non-financial reporting will only apply to some large entities with more than 500 employees. This includes listed companies as well as some unlisted companies, such as banks, insurance companies and other companies that are so designated by member states because of their activities, size or number of employees. The scope includes approximately 6,000 large companies and groups within the EU bloc (EU, 2014a, 2014b, 2014c). This paper reported that the most prevalent reporting schemes were often drawn from; the G3 Guidelines of the GRI and the UNGC. In addition, several platforms and organisations that promote corporate sustainability reporting have developed partnerships with AccountAbility, OECD, UNEP, Carbon Disclosure Project and with many governments and sector organisations (Van Wensen *et al.*, 2011; Kolk *et al.*, 2008).

When one explores the key topics that companies reported on, it transpired that carbon emission disclosures have become quite a common practice (Kolk *et al.*, 2008). Moreover, recently there was an increased awareness on the subject of human rights and the conditions of employment (Lund-Thomsen and Lindgreen, 2013). Curiously, online reporting has offered an opportunity for accountability and transparency as information is easily disseminated to different stakeholders (Zadek *et al.*, 2013). This has inevitably led to increased stakeholder engagement, integrated reporting and enhanced external verification systems. This subject has also been reported by Simnett and Huggins (2015), who have also presented a number of interesting research questions which could possibly be addressed through engagement research. At this point in time, stakeholders are considering reporting schemes as a valuable tool that can improve the quality of their reporting, particularly as it enables them to benchmark themselves with other companies (Adams *et al.*, 2014). GRI is often regarded as "a good starting point" for this purpose. Moreover, the provision of a UNGC communication on progress is a new global trend that has become quite popular among business and non-profit organisations. Some of the European organisations are gradually disclosing environmental information or certain other key performance indicators that are of a non-financial nature in their reporting (Zadek *et al.*, 2013). Generally, public policies are often viewed as part of the regular framework for social and employment practices. Therefore, a considerable commitment is made by local governments who act as drivers for stakeholder engagement (Albareda *et al.*, 2008). One way to establish a CSR-supporting policy framework is to adopt relevant strategies and actions in this regard. Such frameworks may be relevant for those countries that may not have a long CSR tradition or whose institutions lack accountability and transparency credentials (Zadek *et al.*, 2013). It may appear that EU countries are opting for a mix of voluntary and mandatory measures to improve their ESG disclosure. While all member states have implemented the EU Modernisation Directive, they have done so in different ways. While the Modernisation Directive ensured a minimum level of disclosure, it was in many cases accompanied by intelligent substantive legislation. National governments ought to give guidance or other instruments that support improvements in sustainability reporting. Lately, there was a trend towards the development of regulations that integrate existing international reporting frameworks such as the GRI or the UN Global Compact Communication on Progress. These frameworks require the engagement of relevant stakeholders to foster a constructive environment that brings continuous improvements in ESG disclosures. Regular stakeholder engagement as well as strategic communications can bring more responsible organisational behaviours (Camilleri, 2015). Many corporate businesses use non-governmental organisations' regulatory tools, processes and performance-oriented standards with a focus on issues such as labour standards, human rights, environmental protection, corporate governance, and the like. Nowadays, stakeholders, particularly customers expect greater disclosures, accountability and transparency in corporate reports.

Conclusion

This paper maintained that the way forward is to have more proactive European governments which address societal, environmental, governance and economic deficits. It reported how governments' regulatory roles with stakeholders are intrinsically based on relational frameworks with civil society and commercial entities. Governments have a vital role to play in improving on the environmental and social practices of business and industries operating from their country (Camilleri, 2015). This case study has reported how regulatory changes in certain EU countries involve the efficient and timely reporting of non-financial performance of corporate business. It indicated that ESG reporting is primarily aimed at the larger businesses rather than SMEs. Undoubtedly, the EU is acting as a driver of CSR policy. To a certain extent, it is providing structured compliance procedures. On the other hand, national regulatory authorities are expected to explain their strategic objectives to business stakeholders and NGOs. The CSR practices and their measurement, their reporting and audit should be as clear and understandable as possible for businesses. Very often, the European governments' reporting standards and guidelines are drawn from the international reporting instruments (e.g. GRI, Compact, ISO, SA and AA). Nevertheless, it must be recognised that there are different businesses out there which consist of various ownership structures, sizes and clienteles. In addition, there are many stakeholder influences which may possibly affect the firms' level of social and environmental engagement.

Although regulation is desired to limit the pursuit of exploitative, unfair or deceptive practices, this contribution has shown that in some cases regulation (and legislation) is taking the form of "comply or explain" mandates. This paper posited that it is in the businesses' self-interest to anticipate such regulatory intervention. It may be argued that any compulsory reinforcement of the regulatory measures may possibly yield operational efficiencies and cost savings for businesses, in the long term. In this light, more communication and dialogue between stakeholder groups, including business shareholders will help to raise awareness of the public policy and business cases of CSR. Many EU governments are realising that there is potential for laudable social and environmental behaviours that can ultimately bring economic growth, social cohesion and sustainable environmental practices.

Implications

At the moment, we are witnessing regulatory pressures for mandatory changes in CSR reporting. Of course, firms may respond differently to reporting regulations as there are diverse contexts and realities. In a sense, this paper reiterates Adams *et al.*'s (2014) arguments as it indicated that ESG disclosures are a function of the level of congruence between the government departments' regulatory environment and the use of voluntary performance measures. Somehow, EU regulatory pressures are responding to energy crises, human rights matters and are addressing the contentious issues such as resource deficiencies including water shortages. Notwithstanding, big entities are also tackling social and economic issues (e.g. anti-corruption and bribery) as they are implementing certain environmental initiatives (e.g. waste reduction, alternative energy generation, energy and water conservation, environmental protection, sustainable transport, etc.). In this light, there are implications for practitioners and assurance providers of integrated reports, standard setters and regulators (Simnett and Huggins, 2015). Future engagement research can possibly consider how report content and reporting formats, might impact on organisations' decision-making (Correa and Larrinaga, 2015). This paper indicated that practice and policy issues would benefit from additional empirical evidence which analyse how the European disclosure regulations may positively or adversely affect the corporations' stakeholders.

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