

Toward an integration of environmental and social data in a company's reports for more effective decision-making and reporting purposes

Dr. Neungruthai Petcharat

Lecturer in accounting , Graduate School, Sripatum University

Email: neungruthai.pe@spu.ac.th

Abstract

This study investigates an integration of environmental and social data in annual reports that linked with the information in a voluntary disclosure enables more effective decision-making and improves the information needs to stakeholders. In Thailand, an integration of environmental and social data in mandatory reports and voluntary disclosures in Thai context appears however less attention. In addition, the linkage between environmental and social data in annual reports and voluntary disclosures is not widely explored. This could be less potential to enable accounting communication between a company and its stakeholders while having difficulty to meet sustainability targets in the global market. This study investigates an integration of environmental and social data in a company's reports and CSR disclosures to see where an integrated reporting is met. A set of questions in a survey is created to collect data through the review of documents – annual reports and CSR disclosures provided on website of the Stock Exchange of Thailand. Pearson correlation analysis is employed to examine environmental and social performance indicators in annual reports and CSR disclosures. Stakeholder theory explains the key concerns and objectives of stakeholders regarding environmental and social data in the reports.

The results of the study indicate that companies in Thailand integrated environmental and social data in a financial statement consistently with the information reported in a corporate social responsibility (CSR) at statistically significant level 0.01. Environmental and social data in a company's report is positively associated with the information needs of stakeholders that meet integrated reporting initiatives at statistically significant level 0.05. And, companies indicated that environmental and social data reported in a financial disclosure is positively associated with the information in a corporate social responsibility (CSR) at statistically significant level 0.05.

Keywords : Environmental Data, Social data, Integrated Reporting

Introduction

Since the Global financial crisis of 2008 has occurred, financial statements are becoming increasingly details to periodically deliver business activities, strategies, risk management, impacts on the environment and wider society and even more to support stakeholders' interests (Deloitte, 2011). The idea of simplifying all reporting, integrated reporting is of interest to stakeholders. Integrated reporting is introduced to a sustainable company to support the sustainable development disclosures focusing on how a company creates and sustains values (KPMG, 2013). In Thailand, little is known about integrated reporting perspective and actualities and possibilities of incorporating environmental and social information in a company's report (Kuasirikun and Sherer, 2004). Environmental and social information can be defined as all expenditures provided to reduce negative impacts on environment, social, and local community in which a company operates (IFAC, 2005). Environmental and social data has been introduced to companies in Thailand for decades. Thai companies however most likely report environmental and social data and/or statements in corporate social responsibility report, but rarely linked the information to the financial disclosure. Companies disclose a little emphasis on corporate social and environmental achievement (Kuasirikun and Sherer, 2004) while having difficulties in identifying how they meet the needs of corporate sustainability and/or integrated reporting initiatives (Prayukvong and Olsen, 2009). This results in environmental and social data in a financial statement becomes more complex to the financial analysts when estimating potential returns and investment risks (Eccles et al., 2001). Thus, an integration of environmental and social data in a company's reports is considered

significant for management and stakeholders when investment decisions need to be made. An overview of integrated report in Thai context is discussed in the literature.

Prior literature and theoretical perspectives

1. *Integrated report in Thai context*

Over decades, Thailand has been known as one of the most attractive countries in Southeast Asia due to cheaper labour and rich in natural resources. Thailand has been regarded as the most successful country in transforming an agricultural-based society to the manufacturing economy (Kuasirikun and Sherer, 2004). In this growing economic success, companies in Thailand have been found to be primarily focused on human resources, providing "declarative" good news disclosures, rather than creating accurate accounting information of environmental and social factors to integrate in financial reports and/or voluntary disclosures (Ratanajongkol et al., 2006). IFAC (2005) claims that environmental costs can be calorized as material costs of product outputs, material costs of non-product outputs, waste and emission control cost, prevention and other environmental costs, research and development costs, and less tangible (see more IFAC, 2005, p.38). For social costs, Bovea and Vidal,(2004) defines as all expenses paid to the support of employees' health and safety, training, working conditions, and/or some elements of environmental and natural systems. Based on integrated reporting initiatives, environmental and social data needs to be incorporate in companies' reports to provide clearer and more concise representation of how they create sustainable value (The IIRC Organization, 2013). Thus,

¹ Integrated reporting is a report containing strategy, performance, and business activities that reflects the company's ability to create sustainable value on economic, environmental, and social performance in long-term DELOITTE 2011. Integrated Reporting Navigating your way to a truly Integrating Report. Johannesburg, THE IIRC ORGANIZATION. 2013. *GRI and IIRC deepen cooperation to shape the future of corporate reporting* [Online]. London: The IIRC Organization. Available: <http://www.theiirc.org/category/press/iirc-key-press-releases/> [Accessed 1 March 2013].

environmental and social data in annual reports should be linked with the information in the CSR disclosures to show the coherent information on corporate sustainability to add shareholder value in the eye of stakeholders (The IIRC Organization, 2013, Deloitte, 2011). In Thailand, little research has been undertaken on integrated report with a focus on the social and environmental aspects of accounting in Thailand. In this respect the primary aim of this study is to describe and evaluate ways to incorporate environmental and social information in a company's financial report that linked with the information in a corporate social responsibility (CSR) disclosure. This is to create effective data for enhancement of management decision and make data available for stakeholders. Stakeholder theory are considered appropriate for this study to explain ethical and moral obligation of a company to report three areas of the development- economic, environmental and social performance.

2. Stakeholder theory

Several theories have been developed to examine the behaviours of voluntary corporate disclosures such as stakeholder theory that explains creation of eco-efficiency along with environmental and social performance in a company's reports. Stakeholder theory describes stakeholders of a business and how a business caters to the needs of its stakeholders (Freeman, 1984, Freeman and Reed, 1983). The theory helps in the identification of stakeholders and explains the ethical and moral obligations of management in considering stakeholders' interests (Freeman, 1984, Freeman and Reed, 1983). Donaldson and Preston (1995), in describing why stakeholder theory should be taken into account, believe it helps explain firms' behaviours and characteristics in supporting stakeholders' demands or interests. Donaldson and Preston also indicated that, originally, stakeholder theory emphasized shareholders' interests, and they made a case for the

theory's normative base where the moral, ethical, and legal claims of all stakeholders of organizations are advocated. In this study, stakeholder theory explains some aspects of environmental and social data that should be integrated in a company's reports and linked in financial statement in Thai context. It suggests that the concerns and objectives of stakeholders should be addressed by companies to disclose precisely accounting data on environmental and social aspects. Thus, ethical and moral obligations of companies in disclosing environmental and social data need to be advocated (Donaldson and Preston, 1995).

Research design

1. Research question and hypothesis

This study sought to examine an integration of environmental and social data in a company's report and corporate social responsibility disclosures and integrated reporting initiatives. An integration of environmental and social data in a company's report should be accurate and consistent with environmental and social information provided in a voluntary disclosure (Kuasirikun and Sherer, 2004) when using to address the demands of the stakeholders. Research question1 and its hypotheses are posed.

Q1: Can environmental and social data incorporated in a annual report that associated with information in CSR disclosures enable more effective decision-making while improving the data available to stakeholders?

H1. Companies report environmental and social data in annual reports that linked with the information provided in a corporate social responsibility (CSR)

H2. An integration of environmental and social data in a company's reports is positively associated with the information needs of stakeholders that meet integrated reporting initiatives

H3. Companies intend to incorporate environmental and social data in annual reports that associated with the information in corporate social responsibility (CSR) disclosures to identify eco-efficiency, environmental, and social performance

2. A conceptual framework for an integration of environmental and social data in a company's report

This study designs a conceptual framework for an integration of environmental and social data in annual reports and corporate social responsibility (CSR) disclosures to add shareholder value (Figure 1). Environmental and social data in annual reports needs to be linked with the information in corporate social responsibility (CSR) disclosures meet integrated reporting initiatives (H1). An integration of environmental and social information in a company's report enables more effective decision-making and

creates data available to stakeholders. Environmental and social data therefore reported in a financial statement should be consistent with the information provided in a corporate social responsibility (CSR). an integration of environmental and social data in a company's reports is positively associated with the information needs of stakeholders that meet integrated reporting initiatives (H2). An integration of environmental and social data is one of effective investment decision tools for business decision makers those seeking balanced information set of economic, environmental, and social performance to meet integrated reporting initiatives (Kuasirikun, 2005, Kraisornsuthasinee, 2006, Prayukvong and Olsen, 2009). Stakeholder theory examines ways to report more reliable environmental and social data in a company's financial disclosure and/or sustainability reporting to add shareholder value in the eye of stakeholders and international market. Thus, Companies need to incorporate environmental and social data in annual reports that associated with the information in corporate social responsibility (CSR) disclosures to identify eco-efficiency, environmental, and social performance (H3). This is to satisfy information needs of stakeholders and create better competitors.

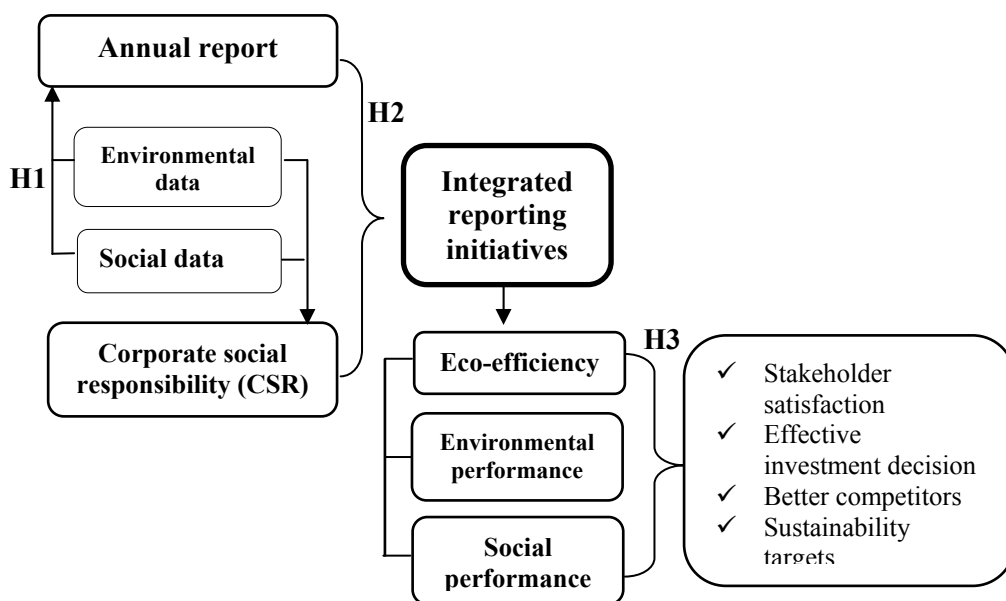


Figure 1: A conceptual framework for an integrated reporting

Research methodology

A sampling group of fifty-two listed companies was selected from transport (14), machinery (12), metal product (7), electricity (5), finance and banking (5), food and beverage (3), petroleum (3), and telecommunication (3) using purposive sampling methods. A set of survey was created to investigate environmental and social information integrated in annual reports and the information in CSR disclosures from 2011 to 2012 provided on the website of the Stock Exchange of Thailand. Environmental and social performance indicators relating to volume of materials, energy, waters, and wastes, expenditures

and/or activities provided to manage environmental and social issues were targeted. Survey was conducted from March to July, 2013. Pearson Correlation analysis was employed to test H2 and H3, as it is a measure of the statistical relationship between two comparable variances (Hair et al., 1998).

Finding

The results in table 1 shows that there is a significant correlation between environmental data in annual report (EN_Annual report) of a sampling group and environmental performance in a corporate social responsibility (EN_CSR) ($p=.000$, at 0.01 alpha level).

Table 1 The test of correlation between environmental data in annual report and CSR

Correlations			
		EN_Annual report	EN_CSR
EN_Annual report	Pearson Correlation	1	.610**
	Sig. (2-tailed)		.000
	N	52	52
EN_CSR	Pearson Correlation	.610**	1
	Sig. (2-tailed)	.000	
	N	52	52

** . Correlation is significant at the 0.01 level (2-tailed).

Likewise, the correlation between social data in annual report (SO_Annual report) and social performance in a corporate social responsibility (SO_CSR) is statistically significant at 0.01 alpha level (Table 2). This indicates that environmental and social data in annual reports of companies are potentially

consistent with economic, environmental, and social performance provided in CSR disclosures. Thus, H1; Companies report environmental and social data in annual reports that linked with the information provided in a corporate social responsibility (CSR) is supported.

Table 2 The test of correlation between social data in annual report and CSR

Correlations			
		SO_Annual report	SO_CSR
SO_Annual report	Pearson Correlation	1	.682**
	Sig. (2-tailed)	.000	
	N	52	52
SO_CSR	Pearson Correlation	.682**	1
	Sig. (2-tailed)	.000	
	N	52	52

** . Correlation is significant at the 0.01 level (2-tailed).

This study further analysed an integration of environmental and social data in a company's reports is positively associated with the information needs of stakeholders that meet integrated reporting initiatives. Table 3 shows that environmental social data in annual reports is positively associated with the integrated reporting initiatives statistically at significant levels – significant value is less than

0.05. This indicates that environmental and social data integrated in a company's reports aimed to enhance management decisions at board room level. An integration of environmental and social in a company's reports improves the information available to stakeholders thus meeting integrated reporting initiatives. Thus, H2 is accepted.

Table 3 The test of correlation between environmental and social data in annual report and information needs of stakeholders

Correlations				
		EN & SO Annual report	EN_CSR	SO_CSR
EN & SO Annual report	Pearson Correlation	1	.610**	.322*
	Sig. (2-tailed)		.000	.020
	N	52	52	52
EN_CSR	Pearson Correlation	.610**	1	.720**
	Sig. (2-tailed)	.000		.000
	N	52	52	52
SO_CSR	Pearson Correlation	.322*	.720**	1
	Sig. (2-tailed)	.020	.000	
	N	52	52	52

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

This study analysed Companies intending to incorporate environmental and social data in annual reports that associated with the information in corporate social responsibility (CSR) disclosures to identify eco-efficiency, environmental, and social performance. There is a significant relationship between environmental and social data in annual report (EN & SO_ Annual report) of a sampling group and eco-efficiency and environmental performance (Env_performance) (p=.000, at 0.01 alpha level). Likewise, the correlation between environmental

and social data in annual report (EN & SO_ Annual report) and social performance (SO_performance) is statistically significant (at 0.05 alpha level (Table 3). This can be interpreted as companies were intending to incorporate environmental and social information in annual report to identify how they met sustainability – economic, environmental, and social performance. They aimed to mitigate pressure that is exerted on them from particular stakeholders – government, customers, suppliers, or environmental organisations. Thus, H3 is supported.

Table 4 The test of correlation between environmental and social data in annual report and economic, environmental, and social performance

Correlations					
		EN & SO Annual report	Eco_ Efficiency	EN_ performance	SO_ performance
EN & SO Annual report	Pearson Correlation	1	.577**	.610**	.322*
	Sig. (2-tailed)		.000	.000	.020
	N	52	52	52	52
Eco_ Efficiency	Pearson Correlation	.577**	1	.615**	.443**
	Sig. (2-tailed)	.000		.000	.001
	N	52	52	52	52
EN_ performance	Pearson Correlation	.610**	.615**	1	.720**
	Sig. (2-tailed)	.000	.000		.000
	N	52	52	52	52
SO_ performance	Pearson Correlation	.322*	.443**	.720**	1
	Sig. (2-tailed)	.020	.001	.000	
	N	52	52	52	52

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Discussion of major findings

As little is known about integrated reporting perspectives in Thailand, environmental and social reporting becomes a mainstream driven by the potential shareholder value for decades. Environmental and social information in a company's report can increase the efficiency with which stakeholders use financial information for their investment decision (Kuasirikun and Sherer, 2004). According to the results of the study, companies in Thailand aimed to incorporate environmental and social data in annual reports that linked with the information provided in corporate social responsibility. Consistent with satisfying information needs of stakeholders, environmental and social data in the reports informs stakeholders how companies develop economic, social, and environmental performance. As environmental problems are closely related to human rights, community development, and other aspects of social responsibility, annual reports and CSR disclosures create a better working

environment and more resilient stakeholder engagement. Consistent with stakeholder theory, the identification of stakeholders explains the ethical and moral obligations of management in considering stakeholders' interests (Freeman and Reed, 1983, Freeman, 1984). Companies therefore indicated their intentions to incorporate environmental data in annual reports that linked with the information in corporate social responsibility (CSR) disclosures to identify eco-efficiency along with environmental performance. This increases the visibility of environmental and social data in a mandatory disclosure and brings up accounting information to the same level with financial reports. This results in companies create benefits from the increase of corporate image awareness and reputation as a sustainable company (Prayukvong and Olsen, 2009) and become more environmentally and socially aware-organizations in the eye of stakeholders.

Conclusion and policy implications

From the results of the study, Thai companies aimed to incorporate environmental and social data in annual reports that linked with the information provided in CSR disclosures to add shareholder value. An integration of environmental and social data in a company's reports enhances management decisions and reporting purposes when improving data available to stakeholders. Companies were aiming to build on developments in annual reports and sustainability reporting thus meeting integrated reporting initiatives to create better communication with their stakeholders. Thus, the results of the study can bring benefits to the linkage between environmental and social data in a financial report and voluntary disclosures (Connelly and Limpaphayom, 2004, Kuasirikun and Sherer, 2004, Kuasirikun, 2005, Yongvanich and Guthrie, 2006, Kraisornsuthasinee and Swierczek, 2009, Prayukvong and Olsen, 2009) to meet integrated reporting initiatives (Deloitte, 2011). The results can be appropriate contribution to practices that bring benefits to financial accountants to incorporate environmental and social data in a company's reports that positively associated with the integrated reporting initiatives. This enables more effective decision-making and improves the information to address the demands of stakeholders and investors when investment decision needs to be made (Deloitte, 2011, KPMG, 2012, The IIRC Organization, 2013). The results would encourage a larger number of Thai companies to fully report environmental and social data in annual reports that linked with the information in CSR disclosures both immediately and in future (Kraisornsuthasinee and Swierczek, 2009). This study suggests that future research should extend beyond the sample group to further incorporate environmental and social data in annual reports and corporate social responsibility disclosures. Integrated reporting framework in Thai context should be fully developed further focusing on the linkage between environmental and social data in annual reports and environmental and social disclosures.

Reference

- BOVEA, M. D. & VIDAL, R. 2004. Increasing product value by integrating environmental impact, costs and customer valuation. **Resources, Conservation and Recycling**, 41 , 133-145.
- CONNELLY, T. J. & LIMPAPHAYOM, P. 2004. Environmental Reporting and Firm Performance: Evidence from Thailand. **Journal of Corporate Citizenship**, 13, 137-149.
- DELOITTE 2011. **Integrated Reporting Navigating your way to a truly Integrating Report**. Johannesburg.
- DONALDSON, T. & PRESTON, L. E. 1995. The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. **The Academy of Management Review**, 20 , 65-91.
- ECCLES, R. G., HERZ, R. H., KEEGAN, E. M. & PHILLIPS, D. M. H. 2001. **The Value Reporting Revolution**, New York, Wiley.
- FREEMAN, E. R. 1984. **Strategic Management: A Stakeholder Approach** Boston, Pitman.
- FREEMAN, E. R. & REED, D. L. 1983. Stockholders and Stakeholders: A New Perspective on Corporate Governance. **California Management Review**, 25, 88-106.
- HAIR, J. F., ANDERSON, R. E., TATHAM, R. L. & BLACK, W. C. 1998. **Multivariate Data Analysis**, New Delhi, Pearson Education
- IFAC 2005. **Environmental Management Accounting**. New York: International Federation of Accountants.
- KPMG. 2012. **Integrated Reporting Performance insight through: Better Business Reporting [Online]**. Available: <http://www.kpmg.com/integratedreporting> [Accessed 30 November 2012 2012].
- KPMG. 2013. **Integrated Reporting: Performance insight through better business reporting [Online]**. Available: <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/integrated-reporting/Pages/default.aspx> [Accessed 15 January 2013 2013].

- KRAISORNSUTHASINEE, S. 2006. Interpretations of CSR in Thai Companies. **Journal of corporate citizenship**, 22 , 53-65.
- KRAISORNSUTHASINEE, S. & SWIERCZEK, F. W. 2009. Doing well by doing good in Thailand. **Social Responsibility Journal**, 5 , 550 - 565.
- KUASIRIKUN, N. 2005. Attitudes to the development and implementation of social and environmental accounting in Thailand. **Critical Perspectives on Accounting**, 16 , 1035–1057.
- KUASIRIKUN, N. & SHERER, M. 2004. Corporate social accounting disclosure in Thailand. **Accounting, Auditing & Accountability Journal**, 17 , 629-660.
- PRAYUKVONG, P. & OLSEN, M. 2009. **Research on the CSR Development in Thailand**. By The NETWORK of NGO and Business Partnership for Sustainable Development (Thailand). UN Volunteers.
- RATANAJONGKOL, S., DAVEY, H. & LOW, M. 2006. Corporate social reporting in Thailand: The news is all good and increasing. **Qualitative Research in Accounting & Management**, 3, 67-83.
- THE IIRC ORGANIZATION. 2013. GRI and IIRC deepen cooperation to shape the future of corporate reporting [Online]. London: The IIRC Organization. Available : <http://www.theiirc.org/category/press/iirc-key-press-releases/>[Accessed 1 March 2013 2013].
- YONGVANICH, K. & GUTHRIE, J. 2006. An extended performance reporting framework for social and environmental accounting. **Business Strategy and the Environment**, 15 , 309-321.