Chapter 27
Environmental Reporting Quality:
An Analysis of Global Creditability Initiatives

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ABSTRACT

The ultimate question of most business practitioners and policy makers now is how to reduce corporate negative environmental performance. One of the most effective ways is to help corporations to set the Key Performance Indicators (KPIs) of their sustainability performance and to report these KPIs to their stakeholders using corporate reporting cycle. To improve the environmental reporting quality, companies generally adopt and follow widely recognized reporting guidelines and third-party assurance standards, thus improving their environmental disclosure quality and trustworthiness in minds of their stakeholders. Over the last two decades a number of global initiatives (e.g. GRI, ISO, DEFRA, AA1000 APS, and ISAE 3000) have been developed for use in sustainability reporting. This chapter, therefore, aims to shed light on these credibility initiatives developed by governmental and non-governmental bodies to improve the quality of environmental reporting and to see the extent to which these credibility initiatives are different or similar.

INTRODUCTION

Sustainable development, climate change, biodiversity, and global warming are now widely recognized as the major environmental problems facing the globe. In large part, this is due to the production of energy using fossil fuels, air and water pollution, misuse of natural resources, etc. The ultimate question of most business practitioners and policy makers now is how to reduce/eliminate this negative

environmental performance vulnerability of socio-economic systems in a cost-effective manner. One of the most effective ways is to help corporations to report and disseminate useful information about their environmental performance to stakeholders using the corporate reporting cycle (i.e. annual reports, stand-alone environmental reports, websites, press, etc.).

In an attempt to improve the quality and, in turn, the usefulness of the corporate environmental reporting (CER), and enhance trustworthiness in minds of their stakeholders, companies adopt various widely recognised reporting guidelines and third-party assurance standards (Bouten et al., 2011; De Villiers and Alexander, 2014; Jizi et al., 2014; Patten and Zhao, 2014; Chauvey et al., 2015; Cohen and Simnett, 2015; Michelon et al., 2015). Over the past two decades, several global initiatives (e.g. GRI, ISO, DEFRA, AA1000 APS, AA1000 AS, and ISAE 3000) have been developed for use in CER. For example, the ISO14031 deals with environmental performance, evaluation, and environmental performance indicators, and the ISO14063 provides useful tools for assessing the quality of environmental communication. As of yet, there is no substantive legislation in many countries for issuing either corporate environmental reports or their accompanying assurance statements; therefore, the adoption of such reporting guidelines and assurance standards remain on a strictly voluntary basis in different contexts and at the discretion of the reporting company. This has resulted in a number of challenges such as the persistent lack of consensus on what and how to report on environmental matters, thus undermining the comparability of information as a key characteristic of useful corporate information.

The main purpose of this chapter is to:

1. Investigate the currently existing global credibility initiatives (i.e. reporting guidelines and assurance standards) developed by governmental and non-governmental bodies to improve the quality and reliability of CER; and
2. To examine the extent to which these initiatives are different or similar.

To this end, the chapter will be organized into six main sections including this introduction. The next section reviews related literature on defining and assessing corporate reporting quality. The following section outlines existing credibility initiatives of CER, classifying them into two sub-sections that deal with CER guidelines and CER independent third-party assurance standards, and discussing the commonalities and differences among them. This will be followed by a discussion on the need for generally accepted CER creditability principles. The chapter concludes and offers directions for future research in the final two sections respectively.

CORPORATE REPORTING QUALITY

Reporting quality is difficult to define and measure due both to its subjectivity and the multifaceted nature of the concept. The meaning of quality of information is much debated in the literature of voluntary disclosure (Hooks et al., 2002), and so can be defined in a variety of ways (Beattie et al., 2004). Singhvi and Desai (1971) claim that reporting quality refers to completeness, accuracy, and reliability of this reporting. Brown and Hillgeist (2007) point out that this term reflects the overall informativeness of firms' disclosures and that the actual quality of a disclosure depends on the quantity, timeliness, and accuracy of the disclosed information. Diamond and Verrechia (1991) believe that disclosure quality is evaluated by logical investors' beliefs about the value of shares and bonds after receiving the disclosure.

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