

HOW DO PUBLICLY LISTED COMPANIES REPORT ON SUSTAINABILITY? A MAPPING OF THE STANDARD/Framework USED BY INDUSTRIAL FIRMS IN THE PHILIPPINES

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Abstract:

The study aims to determine what kind of submission industrial firms do and the standard/framework industrial companies use to comply with the Securities and Exchange Commission (SEC) issued Memorandum Circular (MC) No. 4, series of 2019. A reporting template that serves as a guide to publicly listed Companies to disclose economic, environmental, and social effects in compliance with globally accepted standards. The annual report and sustainability report in 2020 were gathered from the Philippine Stock Exchange and company websites. The analysis was conducted by listing the companies and determining if the company disclosed or did not disclose its sustainability report, which was presented through trends, frequencies, characteristics, and categories. The study revealed that the SEC Sustainability Reporting Template was the most common format and framework. As for the disclosures, most companies disclosed their scope and boundaries, materiality assessment, and UN Sustainable Development Goals, while most did not disclose their external assurance and sustainability governance and management system. The sustainability reporting of publicly listed industrial companies in the Philippines is still developing and is relatively new, as sustainability reports have only been mandatory for publicly listed companies in 2019.

Keywords: Industrial Companies, Securities and Exchange Commission, and Sustainability Reporting,

INTRODUCTION

Sustainability reporting has been a common practice among companies worldwide and has become essential for businesses (Amin-Chaudhry, 2016). The increase in stakeholder interest in firms' environmental, social, and governance performance has prompted the expansion of sustainability disclosure. Firms are motivated by stakeholder pressure to move beyond annual financial reports and provide non-financial information to their stakeholders, such as social, environmental, and governance concerns (Dhaliwal et al., 2014). In the Philippines, the Securities and Exchange Commission (SEC) issued Memorandum Circular (MC) No. 4, series of 2019, last February 18, 2019. This Memorandum Circular, the Sustainability Reporting Guidelines for Publicly Listed Companies (PLCs), defines the method for reporting sustainability in the Philippines. Every year, all PLCs are required to produce a sustainability report as part of their annual report. According to the Commission, this requirement would assist businesses in assessing and managing their contributions to the 2030 United Nations Sustainable Development Goals (UN SDGs) and the Philippine Development Plan 2017-2022, also known as Ambisyon Natin 2040. Therefore, the study wants to determine what kind of submission industrial firms do and the standard/framework industrial companies use.





SEC Reporting Template. According to Memorandum Circular No. 4-2019, the SEC Reporting Template and the sustainability and annual reports are given. This report guides publicly listed companies in disclosing economic, environmental, and social effects in compliance with globally accepted standards. In addition, Sustainability Reports aid in evaluating an organization's performance associated with sustainability. This template is based on frameworks like GRI, IR, and SASB.

GRI Standards. The GRI Standards consist of interlinked reporting standards mainly used to publicly report an organization's activities' effect on sustainable development. They comprise environmental, economic, and social effects. Examples include Corporate Social Responsibility (CSR) reports, Environmental, Social and Governance Reports (ESG) reports, and Sustainability Reports (SR).

Integrated Report. The Integrated Report (IR) is an end product of the Integrated Reporting process that aids in creating value in different term periods. Thus, it assists capital suppliers in understanding how an organization creates value. As such, IR covers components such as the external environment, purpose, business model, governance, risks and opportunities, strategy, performance, and outlook that affect the organization's value.

Sustainability Accounting Standards Board (SASB). The SASB establishes sustainability accounting standards that aid in evaluating an organization's performance related to environmental, social, and corporate governance (ESG) concerns. These standards are intended to guide organizations toward sustainability.

Task Force on Climate-Related Financial Disclosures. The Task Force on Climate-Related Financial Disclosures (TCFD), developed by the Financial Stability Board (FSB), was created to aid organizations in disclosing risks and opportunities and financial and economic impacts related to climate change. In addition, the TCFD serves as a guide to organizations in generating reports that assist stakeholders in comprehending material risks.

Companies no longer treat non-financial information in annual reports lightly. A study by Adams (2002), as cited in Al Amosh & Mansor (2018), stated that understanding the elements that impact the disclosure process may help firms enhance their reporting transparency for consumers and their public image.

De Silva (2019) states that sustainability reporting is "a voluntary endeavor which involves publishing accounts that reflect an organization's economic, environmental and social performance. Sustainability reporting is a new phrase that describes how firms communicate their impact on social, environmental, and economic performance. Sustainability reports are sometimes called "triple bottom line reports" - profits, people and planet. Corporate social responsibility and sustainability reporting are closely linked (Sihite et al., 2024). Social responsibility involves measuring and distributing information regarding a company's impact on employee welfare, the local community, and the environment. Working conditions, job stability, equal opportunity, workforce diversity, and child labor are all examples of corporate welfare information (Burhan & Rahmanti, 2012).

The World Commission on Environment and Development report (Langhelle, 1999) set the debate on growth and sustainable development. They identified three components of sustainable development: economic, social, and environmental. Further studies by Doane and MacGillivray (2001) also indicate that a sustainable company must consider more than just its economic performance but also its social and environmental performance to be sustainable in the long term. It must specifically be taken into consideration when talking about a company's operational strategies and policies.



METHODS

The study considered the seventy-two (72) subsectors of publicly listed industrial companies. The Securities and Exchange Commission issued its guidelines for sustainability reporting last February 2019; hence, the sustainability reports used were from 2020, during the COVID-19 pandemic only. This study gathered the annual financial reports of all publicly listed industrial companies through the Philippine Stock Exchange website to determine how, what, where and when companies report on sustainability. Each company posts a specific link for sustainability reports where the report is readily available.

RESULT AND DISCUSSION

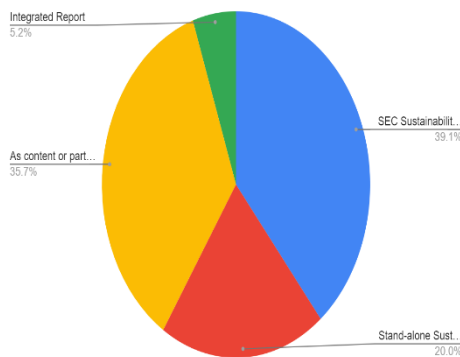


Figure 1. Format of Sustainability Reports used by PLCs.

Publicly listed companies adopted a variety of reporting formats. The SEC memorandum on sustainability reporting did not define a specified structure for corporations to use when disclosing their sustainability data, which is why companies may use any of the four formats listed in Figure 1. Based on Figure 1, most of the PLCs employed the SEC Sustainability Reporting Template examined with thirty-nine (39%), while fifty-seven percent (36%) of the companies included it in their annual report. Twenty percent (20%) of the companies incorporated sustainable elements into their standalone annual reports, and five (5%) issued Integrated Reports.

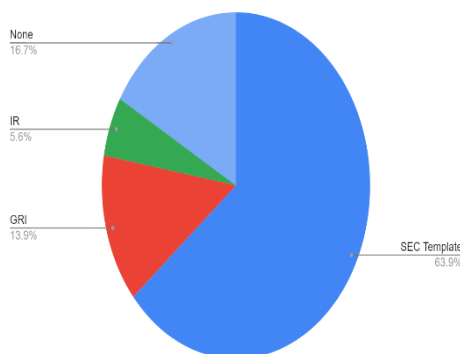


Figure 2. Frameworks Used by PLCs.

According to Figure 2, sixty-four percent (64%) of the Industrial Sector of the PLCs used the SEC Template, seventeen percent (17%) did not follow any of the frameworks given, fourteen



percent (14%) complied with the GRI framework, and lastly, six percent (6%) conformed to the IR framework. The frameworks mentioned have similarities and differences in the way of reporting. SEC Template is a combination of different reporting frameworks. In addition, the SEC Template is readily available in SEC Memorandum Circular No.4. The Global Reporting Initiative (GRI) is the most commonly used reporting framework as it is aligned with international standards and normative frameworks. Integrated Report (IR) focuses on monitoring how the company's capital is incurred and generated by the business model. Moreover, it discloses the companies' strategies instead of the risks and their perspectives.

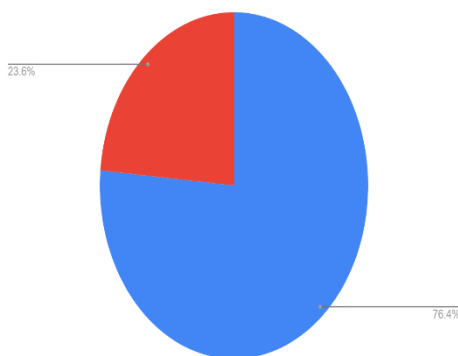


Figure 3. Scope and Boundaries

Figure 3 presents the percentage of companies in the industrial sector of the PLCs that disclosed their scope and boundaries. Seventy-six percent (76%) of the 72 companies reported a detailed overview of where their sustainability effects are felt, whether inside or outside the organization and/or their business operations.

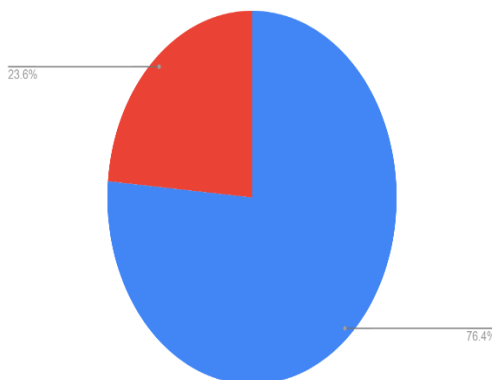


Figure 4. Materiality Assessment

The materiality assessment process is intended to assist in identifying and comprehending the relative importance of various ESG and sustainability topics to the company. It examines several elements through possible influence on the organization and stakeholder importance. As presented in Figure 4, seventy-six percent (76 %) of the 72 industrial sector companies disclosed a materiality assessment on their company's Sustainability Report.

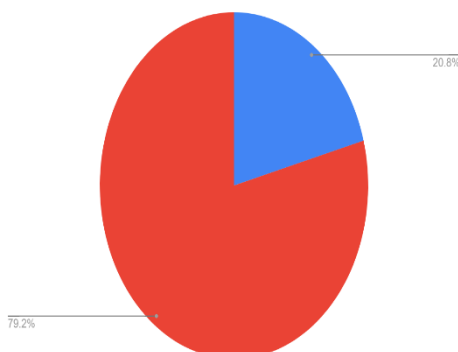


Figure 5. External Assurance

External assurance is an independent examination of performance data disclosed in sustainability reporting. To increase the credibility of their sustainability reports, reporting organizations seek external assurance from accredited assurance providers. External confirmation that an organization's sustainability data is of high quality, reliability, and correctness is essential. The external assurance process also aids organizations in improving their reporting, data management, and accountability, all of which contribute to improved sustainability performance. Figure 5 shows that only twenty percent (20%) provided an external assurance.

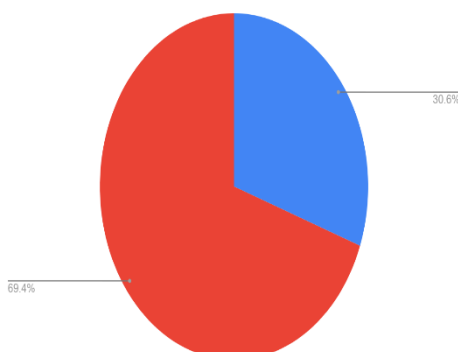


Figure 6. Sustainability Governance and Management System

Sustainability governance aids in implementing a company's sustainability strategy throughout the organization, managing goal-setting and reporting systems, strengthening relationships with external stakeholders, and overall accountability. As seen in Figure 6, thirty-one percent (31%) of PLC's industrial sector reported that the company has a sustainability governance and management system.

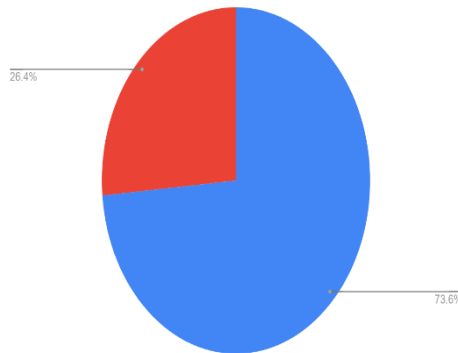


Figure 7. UN Sustainable Development Goals

The United Nations approved the Sustainable Development Goals (SDGs), also known as the Global Goals, in 2015 as a global call to action to eradicate poverty, safeguard the environment, and guarantee that by 2030, everyone will live in peace and prosperity. The 17 SDGs are interconnected, recognizing that actions in one area impact outcomes in others and that development must strike a balance between social, economic, and environmental sustainability. As shown in Figure 7, seventy-four percent (74%) reported that the company's goals are aligned with the UN sustainable development goals.

CONCLUSION

The format and framework used by publicly listed industrial firms in the Philippines followed the SEC template for sustainability reporting. The results show that most publicly listed industrial companies in the Philippines disclosed their scope and boundaries disclosure, materiality assessment, and UN sustainable development goals. On the other hand, most companies did not have or did not disclose their external assurance and their sustainability governance and management system. The sustainability reporting of publicly listed industrial companies in the Philippines is still developing and is relatively new, as sustainability reports have only been mandatory for publicly listed companies in 2019.

Therefore, today's situation has changed and non-financial reporting is becoming more critical as firms, stakeholders, and shareholders recognize that these concerns will eventually influence their long-term sustainability.

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