

Sustainable development and integrated report in environment-the case of Albanian companies

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Abstract

Climate change in Albania indicates several consequences such as increase in temperature, decrease in availability of water resources. Important sector in Albania such agriculture or electricity highly depend on climate conditions. Governments in Albania have addressed the negative consequences in adapting the sustainable development policies. Companies operating in heavy industrial sector and not only should respect the rules and legislation within the country, being responsible of a sustainable society. Reporting on non-financial information of a company performance has many challenges in practice and on other hands orientates the stakeholders on company's measures on respecting the environmental social and governance rules. The latest information is disclosed in the so-called integrated reporting, where accounting practice is incorporated with management strategies on corporate social responsibility. This paper highlights the importance on integrated reporting approach on corporate behaviour towards environment and social issues of society. Furthermore, the practice of adopting integrated reporting and gaps in accounting legislation and regulation in Albania are discussed. In this paper, the concept of integrated report will be stated reviewing the latest authors on the topic. Analysis of the current Albanian accounting practices and possibilities on adapting the integrated reports will come as recommendations of the study. A comparative analysis method of accounting legislation and environmental rules on green responsibility of companies in Albania will results in gaps and needs for reporting in sustainable way. The objectives of this study are, to collect, analyse and compare accounting legislation, environmental legislation applied in Albania to develop an application guidance on how to report in a sustainable way; to analyse the recent development on integrated reported in global level, to analyse the challenges faced by companies in reporting in sustainable way in Albania. As a result, we expect the establishment of a national filing program on integrate report would clarify the companies status towards its obligation on society and environment.

Keywords: sustainability; integrated report; laws on environment; laws on accounting.

1. Introduction

Sustainability is now day in focus of debates and global initiatives. Climate change related damages are ongoing and increased. Global efforts are key factors to ensure environmental sustainability. Development countries have designated policies that address the diminishing the negative effects. In addition developing countries in their effort to grow their economic base should reflect the needs to respect the sustainability.

Furthermore business as key factors on social, environment and economic development are embracing and paying attention on sustainability. To help the companies on achieving their targets on sustainability standards and rules are designated mainly on how to inform on social, economic and environmental issues related to a company impact the outside interested groups. In general companies reports in sustainable way is performed in vulnerable apart from some countries such as Denmark, Norway, France, Belgium, United Kingdom in Europe or in South Africa where rules and national legislation calls for mandatory reporting. In addition that the information provided from these reports to be comparable, internationally accepted framework that could lead to uniformity has to be followed (Bonson and Bednarova, 2014). Such rules and standards on sustainable reporting are proposed from different initiatives and convents as the Global reporting Initiative (GRI), Accountability's AA 1000 Series, United Nations Global Compact's Communication on Progress (COP), the guidelines of the Organization for Economic Co-operation and Development (OECD), the conventions of the International Labour

Organization (ILO) and the standards of the International Organization for Standardization (ISO). Standards and rules issued by these organizations aims at clarifying the disclosure requirement in order to reporting the non financial information.

Corporate Social Reporting (CSR) are often used and discussed in global literature referring to companies' accountability on reporting economic, social and environmental situation towards the society. Reporting in sustainability way existed in US and Europe before 1980. Sustainability and CSR concepts were presented in 1950s both referring to two different concepts, environment sustainability and social concern [6]. Further more in mid-1990 the tradeoff between globalization and economic growth versus environment and planet resources was considered by the Brundtland Commission. The Brundtland Report develop in this framework brought the concept of sustainable development for the first time [7].

Integrated Report (IR) has been first issued on January 25, 2011, as a guideline documents for the companies listed in Johannesburg Stock Exchange [3]. An integrated report presents a single documents that cross the financial and non financial-environmental, social and governance-performance. In order that uniform standards and rules to be issued, the International Reporting Council was formed in 2010, the organization that provides the framework in how to compile the IR. According to the IIRF, the objective of an integrated report is to explain "how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term" integrated reporting aims at reporting not only the company's strategy, management and financial performance, but also social, environmental and economic impacts.

In the IR, all information about the company is included in one report as a whole. Therefore, information users can easily access all the information of the company directly in a single report format. The integrated report also increases the overall performance of the company. The integrated report also includes estimates and information about the future situation of the company, not just the current situation. All data on the sustainability of enterprises are presented In the integrated report the economic and financial information, but also sustainability risks and analyzes are presented. The report describes the risks and opportunities that the company may face in the future and provides information about the strategies that the company will implement. One of the most important issues in the integrated report is the determination of the added value of the company to the community and the environment. The fact that this added value is expressed in numbers may be much more descriptive. Good business practice promotion and corporate social responsibility are the focus of strategies and policies of the Albanian Government since 2010. Integration of the Albanian economy into the EU and globalization, mandate meeting CSR standards by Albanian companies in order to remain competitive. Foreign companies operating in Albania, on the other hand, especially in the raw material extraction have introduced good business practices to the local market. In this study we will focus on the environmental and social practices of the extraction industry companies in Albania and providing guidelines for improvement with the IR framework in mind.

2. Material and Methods

Environmental strategy compliance has to be reported by Albanian companies. In order to facilitate this it is necessary to create forms containing environmental vocabulary covering environmental risks and changes. The objective of this study it is to collect, analyze and compare accounting legislation, environmental legislation applied in Albania to develop an application guidance on how to report in a sustainable way. Furthermore we analyze the recent development on integrated reported in global level and bring the challenges faced by companies in reporting in sustainable way in Albania.

A comparative analysis method of accounting legislation and environmental rules on green responsibility of companies in Albania will results in gaps and needs for reporting in sustainable way. In Albania, companies are required to do their accounting reporting based on the Law no. 9228, dated 29.04.2004 "On Accounting and Financial" which sanctions National Accounting Council (NAS) and International Accounting Standards (IAS) as well International financial reporting Standards (IFRS), as mandatory for implementation by the respective entities. Companies do not have to report non-financial information, nevertheless they are engaged with the CSR and there are improvements in standards such as ISO 9000.

Promotion of good practices on CSR has been in focus of policies developed in Albania since 2005 and the local network of United Nations Global Impact (UNGCI) has been established. Three main agencies are engaged in designation and development of CSR policies. Ministry on labor affairs, ministry on environment issues, and Ministry of economy during the recent years, have promoted and applied the legislation on CSR. Albania was a member state of ILO from 1920 to 1967. Shifting to democratic regime in 1990, Albania became member in 1991, and right now the country has ratified 53 ILO International Labour Standards of which 48 are into force, including the eight fundamental Conventions. Companies in Albania should respect the laws on environment moreover, projects with direct impact in environment has to apply for the environmental permit in the ministry responsible for environment issues. All the companies has to report at the beginning of the project for the investments in environment that will reduce the negative impact in environment, and the agency responsible for monitoring and evaluation of the impact has to take the measure in case when the investment are not performed. In case of failure and disability to meet the rules the companies would not have the opportunity to recover the license affecting in the main objective of the firm to increase the value in unlimited time. Regarding the reporting of CSR activities, the companies are concerned about the information on training staff, environment and community. The information can be retrieved in the company's website and no rules or guidance is available for the formulation of these reports. In more specific the data are as following:

1. Staff

Albanian companies apply the code, signs individual contracts or collective contracts by syndicates. Training or workshops are offered for the workers. More over health insurance are offered for the employees.

2. Environment

The heavy industry enterprises have to apply for the environment permit, as well to conduct studies on environment degradation and development plans on the region. The project has to be discussed in public consultation with the stakeholders.

3. Community.

The CSR activities consists on charities, infrastructures investments, children activities as well open discussions on future projects.

3. Results and Discussion

A comparative analysis of the principles and rules of a sustained reporting in Albania show the following:

United Nations Environment is the leading global environmental authority that sets the global environmental agenda, promotes the coherent implementation of the environment dimension of sustainable development within the United Nations system. A list of protocols and agreements has been signed by nations obeying on respecting rules on environment.

Albania is committed in addressing all the objectives of the Convention of United Nations Framework on climate change since June 2005. The convention was adopted on 9 May 1992 in New York and signed at the 1992 Earth Summit in Rio de Janeiro by more than 150 countries and the European Community. Its ultimate objective is the "stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. Under the Convention, Parties included in Annex I aim to return greenhouse gas emissions not controlled by the Montreal Protocol to 1990 levels by the year 2000. Furthermore, Albania was committed to realize the Kyoto protocol commitments in addition to those included in the UNFCCC. As all the countries who embraced the Kyoto protocol, Albania agreed to reduce their anthropogenic greenhouse gas emissions, (carbon dioxide, methane, nitrous oxide, hydro-fluorocarbons, per-fluorocarbons, and sulphur-hexafluoride) by at least 5% below 1990 levels in commitment period 2008 to 2012. During the last two decades Albanian Government has adopted and designated the necessary laws under the umbrella of the requirements and obligations found in the Convention and other related protocols and documents related to climate change. In the light of Kyoto protocol, the International Accounting Standards Board has provided guidelines as how to distribute allowances that is able to buy and sell in the market. The IASB specifies that rights (allowances) are intangible assets that should be recognized in the financial statements in accordance with IAS 38. Furthermore EU directives address the environmental issues in annual reporting. Among the recommendation on environment big issues were the recognition, measurement and disclosure of environmental

issues in the annual accounts and report of companies. Although the EU recommendation is voluntary, the EU countries report the environmental issues on their annual reporting in mandatory. Companies report data on consumption of water, energy; significant types and volumes of pollutants emitted to air, water and soil; types and volume of pollutants in production processes, waste or products.

Analysis of current laws and regulations in Albania reveals that reporting in most Albanian companies are on Employees Health and Safety and Environment and these reports centre on safety workplace and hazard prevention for employees, with focus on employee health. There is little or no focus on environmental issues, activities or the prevention of degradation on the environment. There are also, no policy statements to prevent or alleviate these occurrences. Albanian accounting standards NAS 6 on Provision does not specifically provide for environmental issues and reporting. Albania is committed on climate change, such as realizing the Kyoto protocol. There are no accounting standards in Albania which recognize carbon allowances and trading such as the IAS 38. For companies that strive to do environmental reporting in order to publish their environmentally friendly policies, there isn't a consolidated framework of environmental reporting at the present time in Albania. In Albania, 97% of entities are small and medium accounting for about of 78% of labour force. The main sector of Albanian economy are the services accounting for 35 %, meanwhile industry counts for 5% and agriculture counts for 10%. Even though the big companies comprise a small proportion on the whole entities, environmental reporting should be embraced by them encouraged by the Albanian government. There is a limited environmental and accounting policies implemented in Albania yet there is no coherence in such reporting. This study will present some rules and guidelines that can be followed by Albanian companies. We have used guidelines provided by IIRC, bringing up core issues that should be included in annual reporting. Based on The International Integrated Reporting Council (IIRC) an integrated report includes eight Content Elements that are fundamentally linked to each other and are not mutually exclusive:

1. **Organizational overview and external environment:** What does the organization do and what are the circumstances under which it operates?
2. **Governance:** How does the organization's governance structure support its ability to create value in the short, medium and long term?
3. **Business model:** What is the organization's business model?
4. **Risks and opportunities:** What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?
5. **Strategy and resource allocation:** Where does the organization want to go and how does it intend to get there?
6. **Performance:** To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
7. **Outlook:** What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
8. **Basis of presentation:** How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

The IIRC defines the guiding Principles enabling the designer of integrating reporting to specify the data and the content of the report. Below are presented the principles:

1. **Strategic focus and future orientation:** An integrated report should provide insight into the strategy of the foundation and its ability to create value in the short, medium and long term, and how it relates to the use and interaction of capital elements.
2. **Interlinking information:** An integrated report should provide a holistic picture of the combination of factors that effect the value creation ability of the organization over time, their relationship to each other, and their dependencies
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4. **Relations with stakeholders:** An integrated report should provide information on the nature and quality of the relationships established by the stakeholders with the stakeholders and shows how the stakeholder understands the legitimate needs and desires of the stakeholders.
5. **Materiality:** An integrated report should provide information on issues that significantly effect the ability of the organization to create value in the short, medium, and long term.
6. **Be short and simple:** An integrated report should be short and concise.

7. Reliability and completeness: An integrated report should contain all material aspects, both positive and negative, in a way that is balanced and does not contain any material error

Consistency and comparability: The information in an integrated report should be presented in a way that (a) is based on a consistent basis over time, and (b) allows the organization to compare with other organizations in terms of their ability to create value over time.

In Albania, environmental issues are being addressed and gaining an important place in the policy and strategy making of a country. The chemical and physical indicators monitoring show a continuous increase of all types of pollution, which resulted from different published studies conducted in Albania. The most common recommendations from these surveys is the continual monitoring of the parameters and also measures to be taken in environmental protection. One of the main pollutants is known to be the industry and agricultural activity development. The evolution of these activities should be accompanied with some standard fulfillment, which also can be monitored. One of the main industries that cause the most significant damage on the environment is the energy production and heavy industry. Hence the energy production, consumption and usage the greenhouse effect is considerable, the responsible companies should implement sustainable environmental policies in addition to the maximization of energy production and usage. The new accounting law demands that companies with a number of employees over 500 should report in addition also nonfinancial information, in other words each company should operate in social responsibility and produce information over the most important environmental, social and economic issues.

The energy production sector, referred to the EITI data, in 2016 has produced about 834 million dollars (USD), detailed in: Production of Brute Oil in 179.2 million dollars, Minerals 214 million dollars and Electric Energy 441 million dollars. The latter had an increase by 315%, compared to 2013. In 2016 the Brut Oil export value was about 155.78 million dollars. The Oil and natural gas production sector hired over 3,080 employees during 2016, where Albpetrol was the main employer with around 64% of the employees in the oil extraction sector. The mineral production Chromium and Ferrochrome had the main weight in their industry, with almost 74% of the general production, respectively with 730 thousand tones and 49 thousand tones, with a value of 148.7 million dollars. In the electro-energy sector 5.091 GWh was produced, where KESH generated 71.4% of county's production with a hydroelectric installed capacity of 1.350 MW, build in the river Drin Watergate. For all the industries in the extraction industry and not only we recommend that in addition of financial reporting should also produce integrated report. There is not yet a standard and homogeny format for integrated reporting, but the additional information should be about the organization, governance, opportunities and risks, strategy and resource allocation, business model and performance. More on information provided in integrated reported are highlighted in the table below.

Table1. Fundamental elements of integrated reported

SECTION	ELEMENTS
ORGANIZATION	Mission of corporation
	Vision
	Ethical values
	Partnership and management structure
	Main activities
	Products services
	Competition structure of the market
	Financial information
GOVERNANCE	Leading staff and management structure
	Risk management practices
OPPORTUNITIES AND RISKS	Risk factors and uncertainties
STRATEGY AND RESOURCE ALLOCATION	Risk management
BUSINESS MODEL	Company strategy
PERFORMANCE	Financial sources
	Production sources
	Natural capital

	Social and relationship capital
	Human resources

Source: IIRC, 2018

According to IIRC companies need to keep their sensitivity to the environment at the highest level and referring to the need on natural capital information on integrated reported. Furthermore, natural capital comprises renewable and nonrenewable environmental resources and processes that provide goods or services that support the past, the current or future prosperity of an organization. Natural capitals refers to air, water, land, minerals, forests, fossil fuels, agricultural crops and biodiversity as other parts of ecosystem. The information on natural capital in integrated report are the amount of solid waste and how much it is removed, the level of toxic gas from the factory chimney and etc. In addition, future environmental impacts and future environmental added value of the company will be also presented in integrated report. Subsequently, a sample application is presented as a suggestion on how to present this information in a single report format referring to reports of companies reporting in energy sectors. The reporting includes the key performance indicators (KPI) defining how effective a company is in achieving the business objectives. When compiling the IR, KPI must be determined as well monetized measures. In our study we highlight some of the KPI that has to be measured in the heavy industry. For each sectors KPI has to be indentified and assessed. Subsequently examples on KPI in heavy industry are summarized in the table 2.

Table 2. Main performance indicators in the heavy industry

	KPI
	Renewable energy use
	Renewable energy production (MW)
	Renewable energy capacity (MW)
	Energy consumption (MW)
	Operational oil/gas leaks
	Surface water, underground water and network consumption
	Source based water supply
	Water resources used
	Quantities of drained and recycled water
	Protected areas
NATURAL CAPITAL	Strategies developed on biodiversity
	Study area under biodiversity reliance
	Direct and indirect greenhouse gas emissions
	Nox, Sox and other air emissions types
	Water discharge information
	Total waste volume and disposal methods
	Hydrocarbons released to air
	Total waste volume
	Waste drilling studies an improvement strategies

Source: Annual integrated report templates form companies in heavy industry

4. Conclusions

Legislation in Albania requires implementation of rules and compiling of reports on environmental hazards fulfilling the EU directives. Furthermore, annual reporting of Albanian companies is done in accordance with IFRS, in which environmental issues are identified and accounting rules are specified. EU directives on accounting specify that all the companies should include in annual reporting the non financial reporting. Even though it is not mandatory, companies in EU are reporting the so called green reports. CSR is a relatively new concept with a limited use in Albanian companies. National policies designed in recent years taking into account the EU legislation, requires that CSR practices to be considered. On the other hand the decision making on CRS

is divided according the responsible institutions, where each one respect the own strategies. The laws and regulations in power enforce the respect of labor rights, reducing of negative impact in environment, and public consultation on project with negative impact in society. On February 2018, a new law on accounting designated, discussed by the stakeholders and is in the final phase of approval. On the new law the non financial reporting is mandatory for the companies that have a number of 500 employees. This will require special regulations as well approaches how to compile the reports. In our study we highlighted the role on IR and how different organizations have build standards and rules applied by most of companies in different countries.

In addition, integrated reported requires that on different sectors, the KPI to be identified and measured not only in quantity but as well as monetized. This requires accountability for the companies' as well special guidance on how to compile the reporting.

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