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REVIEW ARTICLE

LIMITS AND BEST PRACTICES OF THE SUSTAINABILITY REPORTING OF AN ELECTRIC COMPANY IN THE PHILIPPINES USING GRI FRAMEWORK

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ABSTRACT

GRI framework is one of the generally used standards for sustainability reporting that became a fundamental requirement for most companies in the Philippines, including the electric utility sector. This paper aims to explore the limitations, drivers and best practices affecting the usage of GRI framework by an electric company (the "Electric Company") in the Philippines in its sustainability reporting and adoption of sustainability KPIs. This research utilized qualitative approach which incorporated self-administered survey with open ended questions with relevant officers of the Electric Company and documentary analysis methodology using data sourced from sustainability reports of the Electric Company covering periods from 2019 until 2022 including other relevant public disclosures from its website. The data extracted were used to corroborate and support the output from the interview. The result explained the limitations encountered by the Electric Company in preparing its sustainability reporting following the GRI framework guidelines. Moreover, this study clarified that the sustainability reporting of the Electric Company was mostly influenced by the mandate of the government regulators and supported by its corporate governance goals to promote accountability and transparency. Lastly, this study suggested that the sustainability reporting of the Electric Company aimed to satisfy the information needed by its stakeholders and value creation expected by external users. Contextualizing the foregoing findings, this study has implications for regulators and researchers and contributes to the literature of sustainability reporting in the utility sector in the Philippines. It will increase pressure on other utility companies in the Philippines to assess the context-specific determinants of sustainability reporting.

KEYWORDS

Sustainability reporting, GRI framework, limitation, drivers, best practices, electric utility

1. INTRODUCTION

Global Reporting Initiative's (GRI) Sustainability Reporting Standards is one of the generally used standards for sustainability reporting that became a fundamental requirement for most companies in the Philippines, including the public utility sector. In the past years, a growing number of companies in the Philippines, specifically those publicly listed, have been publishing sustainability reports and have started integrating economic, environmental, social and governance considerations into their strategic frameworks. The Electric Company is one of the largest public utility companies in the Philippines which adopted the GRI Sustainability Reporting Standards in the drafting of its sustainability reports.

Today, many stakeholders have been demanding companies to provide details on its economic, environmental, social, and governance involvements and accomplishments through its sustainability reporting. In their sustainability reporting, most companies have adopted GRI Sustainability Reporting Standards as its framework of sustainability reporting. In fact, a 2022 study reported that seventy-eight percent (78%) of the G250 companies now adopt the GRI Sustainability Reporting Standards (GRI, 2022).

Particularly in the Philippines, the Securities and Exchange Commission (SEC) did not require any framework for sustainability reports. However, the SEC did provide four globally recognized standards for reports on sustainability and non-financial information, namely: (i) Global Reporting Initiative's (GRI) Sustainability Reporting Standards; (ii) International Integrated Reporting Council's (IIRC) Integrated Reporting (IR) Framework; (iii) Sustainability Accounting Standards Board's (SASB) Sustainability Accounting Standards; and (iv) Recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).

Out of the four (4) standards / guidelines above-mentioned, the GRI Sustainability Reporting Standards are the most widely used and have been considered as the benchmark for sustainability reporting in the Philippines. These frameworks provide a comprehensive, flexible, adaptable tool for organizations of nearly every size and capacity to report their EESG impacts (Aboitiz, 2023).

In the Philippines, the sustainability reports are published voluntarily by companies every year as a complement to annual reports to show how socially responsible the company is. Since it is not required until 2022, some publicly listed companies did not publish sustainability reports. However, there are companies, like the Electric Company, which chose to publish its sustainability reports voluntarily.

This study focuses on the sustainability reporting of the Electric Company which specifically aims (i) to identify the limitations and challenges in the drafting and submission of sustainability reports; (ii) determine the drivers affecting its sustainability reporting; and (iii) highlight its

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best practices in sustainability reporting.

In general, this paper contributes to the sustainability reporting literature for public utilities especially in the Philippines. While there may be a plethora of studies on sustainability reporting in general, there is a dearth of research on public utilities and particularly in the electric utilities in the Philippines which use GRI Sustainability Reporting Standards as basis for assessing sustainability performance.

2. Literature Review

Sustainability is defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland, 1987). It focuses on how a company manages its economic, environmental, and social impacts, risks, and opportunities. Disclosures on these non-financial matters are done through sustainability reporting (also known as EESG (economic, environmental, social and governance) reporting, non-financial reporting, or triple bottom line accounting), which is a central element of modern corporate reporting that includes strategy, governance, and performance (Securities and Exchange Commission, 2009).

The World Business Council for Sustainable Development (2011) defined sustainability reporting as the public reports by companies to provide internal and external stakeholders with a picture of corporate position on social economic and environmental activities (Asaolu et al., 2011; Kumar et al., 2023).

On the other hand, the GRI Sustainability Reporting Standards defined sustainability reporting as an organization's practice of reporting publicly on its significant economic, environmental and/or social impacts, in accordance with globally accepted standards. Such disclosures enable organizations to measure, understand and communicate their EESG performance and then set goals, and manage change more effectively (Global Reporting Initiative, 2023).

In one research results show that less than 78% of all sustainability reporting cover sector-specific indicators for electric utilities which are on average only covered to 42.6% by (Slacik J, et. Al., 2020). While electric utility companies of forty-five (45) countries publish G4-sustainability reports, most sustainability reports are published in the USA, Brazil, Germany, Spain, and Russia accounting for 38.7% of the entire sample. Noticeably, 60% of all sustainability reports are from public electric utility companies, i.e., 59.6% are internationally active while 68.8% are stock exchange listed electric utility company.

Sustainability reporting has become a common practice for companies operating in a sustainability-related sector (Dienes et al., 2022). This has become the main driver for other companies since society expects them to report on sustainability performance regardless of their sector affiliation. In Nigeria, however, drivers of sustainability reporting vary among companies based on size, internationality, ownership structure, profitability, age, leverage, and the type of auditor (Ikpor et al., 2022). In Europe, mining companies stated that they had been publishing sustainability reports for a longer period because they act under pressure from international initiatives such as the UNGC, industry associations, the European Union, governments, stakeholders, and partnerships to address sustainability issues Also (Ivic et al., 2021).

In another research, on the quality and consistency of sustainability reporting were worrying due to some companies distorting their reporting to highlight positive news (Siew, 2014). Companies were also more likely to graph indicators with favourable trends. Results of his analysis revealed that 68% distorted results to highlight positive news more prominently covering a range of issues across economic, environmental, and social dimensions.

3. Methods

This research utilized qualitative design which incorporated self-administered survey with open ended questions with relevant officers of the Electric Company and documentary analysis methodology using data sourced from sustainability reports of the Electric Company covering periods from 2019 until 2022 including other relevant public disclosures from its website.

Primary data were taken from the responses of the selected respondents through a self-administered survey with open ended questions. In designing the questionnaire, the author reviewed the SEC Memorandum Circular No. 4, Series of 2019 which provided the sustainability reporting guidelines for publicly listed companies in the Philippines. Under SEC Memorandum Circular No. 4, series of 2019, publicly listed companies were required by the SEC to submit a sustainability report, along with their Annual Report required under Section 17 of the Securities Regulation Code. By requiring such report, the SEC wishes to help these companies assess and manage their non-financial performance across economic, environmental, and social aspects of their organizations, and to enable them to measure and monitor their contributions towards achieving universal targets of sustainability, such as those provided in the United Nation's Sustainable Development Goals. The Memorandum Circular outlines the reporting guidelines to be followed and the sustainability report template.

The questionnaire was electronically mailed to the officers of the company via targeted selection process to ensure a more accurate data gathering. The selection was based on either of the following criteria: (a) involvement in preparation and submission of the sustainability report; or (b) involvement in the implementation of: (i) corporate social responsibility projects; and/or, (ii) corporate governance policies. Follow up interviews were also conducted to verify the responses from the respondents. The responses were then collated and included in the data analysis.

In addition, this research utilized content analysis to examine the published sustainability reports of the Electric Company in the Philippines listed in the SEC for the 2019 to 2022 financial reporting period including salient information published in its websites (MERALCO, 2023). There were three (3) sustainability reports submitted by the Electric Company. These published sustainable reports were analysed and accounted for substantial evidence of sustainability performance indicators within the study period in accordance with the GRI Sustainability Reporting Standards. The patterns of sustainability reporting by the Electric Company for three (3) years were further analysed to infer the best practices of the company.

4. The Data Analysis

When writing sustainability reports, the Electric Company follows the GRI Sustainability Reporting Standards, which encompass economic, environmental, and social performance. The sustainability report focuses on material topics identified through stakeholder engagement, defining reporting boundaries, and provision of accurate data and metrics. The targets and goals of the Electric Company were set and aligned with its sustainability objectives and further integrated with the United Nation's (UN) Social Development Goals (SDG). Assurance of independence also enhances the credibility of the sustainable report. According to the respondents, adapting to industry, regional requirements, and stakeholder expectations is important for the Electric Company.

The Electric Company's sustainability report focused on disclosing the performance of the company in relation to its sustainability agenda. This agenda is marked by a distinctive focus on four pillars: (i) POWER: delivery of affordable, accessible, reliable, and clean energy to all, with a special focus on bringing power to unserved and underserved communities; (ii) PLANET: safeguards the health of the planet by reducing its impact on the natural environment; (iii) PEOPLE: promotes a shared vision and understanding of sustainability within the organization while ensuring the holistic development of employees in a safe and inclusive workplace; (iv) PROSPERITY: brings meaningful and enduring value to all its stakeholders, ensuring no one is left behind. According to respondents, the contents of the sustainability report are determined by the sustainability office of the Electric Company and approved by its other offices, management, and board.

As to the limitations and challenges in the submission of sustainability reports, Figure 1 provides for the limitations and challenges identified by the selected respondents of the Electric Company in relation to its frequency of identification.

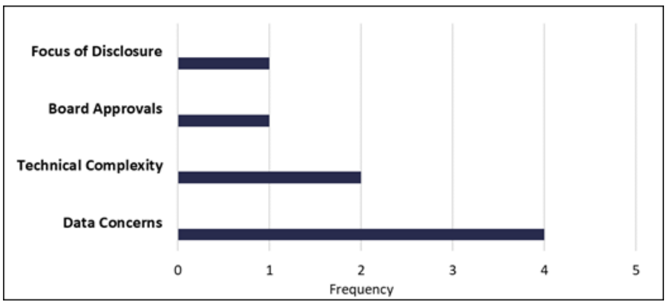

Figure 1: Limitations and challenges identified by the respondents of the Electric Company in relation to its frequency of identification.

Results show that the major limitations and challenges encountered in the submission of the sustainability reporting using GRI framework revolved on data concerns. These include data collection, data availability and data accuracy. Majority of the respondents identified data concerns as their top limitation or challenge in sustainability reporting. The Electric Company has many subsidiaries which were part of its sustainability report. The high number of companies which were included in the scope of work proved to be one of the challenges in the availability, collection, and accuracy of data.

Respondents also explained that the technical complexity of the data also posed a challenge for the Electric Company. There is a need for experts and professionals in the field to accurately analyse and interpret the data gathered from the Electric Company and its subsidiaries.

Respondents also must manage what to disclose in the sustainability report. Since there is a huge number of data that can be reported, the final scope of the disclosure will be approved by the management and board of the Electric Company.

As to the drivers affecting the Electric Company's sustainability reporting, Figure 2 presents the major drivers affecting the sustainability reporting of the Electric Company.

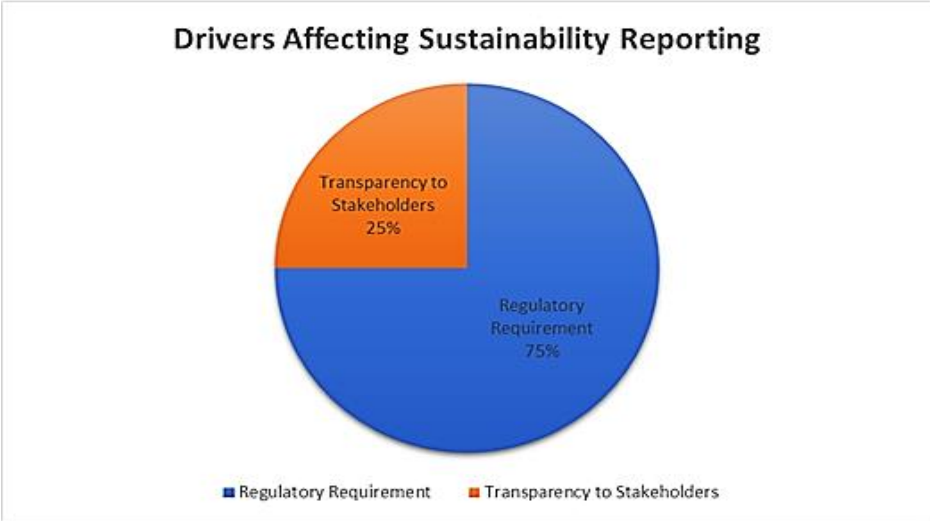

Figure 2: Drivers affecting the Electric Company's sustainability reporting.

Results show that the main driver affecting the sustainability reporting of the Electric Company is the issuance of SEC Memorandum Circular No. 4, Series of 2019 mandating publicly listed companies to submit their annual sustainability reports. The submission of sustainability reports became a compliance requirement for publicly listed companies. When the SEC mandated the submission of the sustainability reporting, the Electric Company started submission of its sustainability reports. While publicly listed companies may choose not to submit their sustainability reports until 2022, many have already complied with the said memorandum circular.

Results further present that the increasing demands by stakeholders for accountability and transparency of companies, most specially for publicly listed companies, has also been recognized as one of its main driving forces. Stakeholder expectations have been valued by the Electric Company as part of its corporate governance practice. Respondents echoed that publishing of a sustainability report as an electric company is a strategic and responsible approach to promote transparency, engage stakeholders, manage risks, enhance corporate image and reputation, and create long-term value while addressing environmental and social challenges.

As to the best practices of the Electric Company, Figure 3 indicates the number of sustainability frameworks and standards that the Electric Company has adopted in its sustainability report.

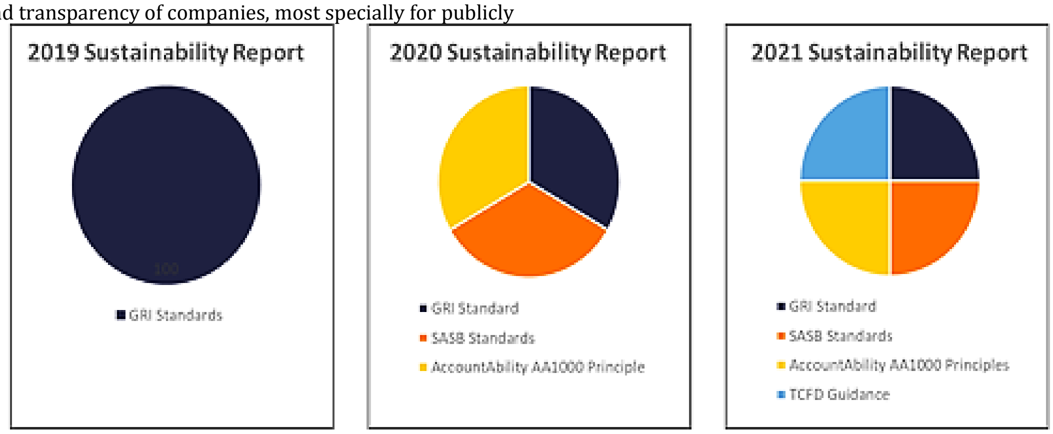

Figure 3: Drivers affecting the Electric Company's sustainability reporting.

Starting 2019, the Electric Company followed the GRI Sustainability Reporting Standards. In 2020, aside from GRI Sustainability Reporting Standards, it also followed SASB's Sustainability Accounting Standards and Accountability AA1000 Principles. SASB Standards enable organizations to provide industry-based disclosures about sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, access to finance or cost of capital over the short, medium or long term (SASB, 2023); while AA1000 Accountability Principle is an internationally accepted, principles-based framework that guides organizations through the process of identifying, prioritizing, and responding to sustainability challenges, with the goal of improving long-term performance. It is dedicated to expanding the global accessibility and usage of the Accountability Principles, and as such has partnered with aligned organizations in the ESG ecosystem such as Earth Academy to deliver digital learning content and courses designed to support sustainability professionals in their application of the AA1000AP 2018 (AA1000AP AccountAbility Principles, 1999). Later in 2021, it further added the recommendations of the Task Force on Climate-related Financial Disclosure to improve its oversight and management of climate-related risks and opportunities.

Verily, the Electric Company sought to improve its sustainability reporting by following not only the GRI Sustainability Reporting Standards but also added other guidelines and standards. This improvement of standards and guidelines may be considered as one of the best practices in the industry. The Electric Company adopted a more rigorous materiality and data collection, analysis, and verification processes to better gauge and articulate how sustainability is embedded in the Electric Company's strategies and operations.

The Electric Company also focused on the advancement of SDG 7: Affordable and Clean Energy. In addition, the company also advocated the inclusion of other SDG goals like: (i) SDG 1: No Poverty; (ii) SDG 4: Quality Education; (iii) SDG 5: Gender Equality; (iv) SDG 8: Decent Work and Economic Growth; (v) SDG 9: Industry, Innovation and Infrastructure; (vi) SDG 11: Sustainable Cities and Communities; (vii) SDG 12: Responsible Consumption and Production; (viii) SDG 13: Climate Action; (ix) SDG 15: Life on Land; and (x) SDG 17: Partnership for the Goals. Beyond SDG 7, the Electric Company also enable sustainable progress by contributing to other United Nation's Sustainable Development Goals through various businesses and initiatives.

5. Conclusion

Contextualizing the foregoing findings, this study has implications for regulators and researchers and contributes to the literature of sustainability reporting in the electric utility sector in the Philippines. It will increase pressure on other public electric utilities in the Philippines to assess the context-specific determinants of sustainability reporting.

Given the limited time and resources, this study only presents an initiatory research and overview on the drivers, limits, and best practices of an electric utility in the Philippines. It is highly recommended that more research and focused analysis of the entire electric utility sector in the Philippines, or at least per region, be conducted to fully grasp the status of sustainability reporting in the Philippines.

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