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Reporting practices of State Forest Enterprises in Europe

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ABSTRACT

Forests provide a wide range of public services to communities and, for this reason, public authorities in many countries have a relevant role both as land owners and as providers of raw material and public services. This article focuses attention on State Forest Enterprises (SFEs) based in Europe. They manage state-owned forest areas, which amount to more than 40% of all forest cover in the EU and hence their performance influences the development of the whole sector, maintaining forest resources stability and productive potentials. This should be done through stakeholders' inclusiveness etc., so it is necessary to monitor their activities and further impacts. The common way to do this is through reporting practices. Information disclosed in reports can provide insights into the level of transparency, accountability and openness. Thus, this article aims to analyse the reporting systems of SFEs in terms of sustainable forest management and corporate responsibility.

We used content analysis, sustainability metrics and a set of indicators to assess and analyse patterns and structure of disclosed information in the reports of selected SFEs. Results revealed much diversity in approaches towards the implementation of sustainability standards. It is suggested that the adoption of a common scheme for periodic reporting will allow communication to a wider public and comparative analysis of SFEs on a large scale.

1. Introduction

Concepts of "Corporate Social Responsibility"[1] (CSR) and the frequently used expression "Corporate Responsibility"[2] (CR) have assumed a key role in inspiring the business world during the last decades. Different industries, companies, international and local governmental bodies have adopted CR as part of their reporting routines. Environmental, or corporate (social) responsibility, or sustainability reports have become common tools for disclosing companies' performances in implementing their CSR strategies (Mikkil and Toppinen, 2008).

Since the 1970s, public attention towards impacts on forest resources by different industries has increased a lot. Forest resources are often treated with special deference by society because they provide different functions including the provision of ecosystem services, biodiversity habitat, wood and non-wood products, and water resources. Increased levels of social knowledge and expectations for transparency in operations have stimulated new responsibility standards for the forest sector also as concerns reporting tools. The industry has responded by implementing new environmental and social policies intended to satisfy public concerns (Panwar et al., 2006). Forest sector companies have widely embraced CR reporting in order to manage the company's reputation and receive stakeholders' support (European Commission, 2001).

CR of pulp and paper companies was investigated by Mikkil and Toppinen (2008); Vidal and Kozak (2008) and Li and Toppinen (2011) analyzed CR practices in the wood-working sector while so far no study has attempted to analyse CR of SFEs. Among the companies operating in the forestry sector State Forest Enterprises (SFEs) play a relevant role, specifically in Europe. The responsibility of SFEs is to manage State forests under special contractual agreements with State authorities (Krott and Stevanov, 2008). They are responsible for maintaining ecosystem services and social benefits from the forest. Despite recent changes in forest ownership and tenure in some regions, most of the world's forests remain under the public ownership. According to the Global Forest Recourse Assessment (FAO, 2010), 84% of forest land is publicly owned, mostly under the direct control of central

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[1] Corporate Social responsibility (CSR) is «a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing "more" into human capital, the environment and the relations with stakeholders» (European Commission, 2001, p. 6).

[2] For this study we decided to use the term "corporate responsibility" (definition is the same as for CSR) even though the term "corporate social responsibility" is better recognized. Both terms refer to the social, environmental and economic responsibilities of businesses, but "CSR" might give the impression that social aspects are being emphasized more than the other two dimensions. At the same time the term "corporate responsibility" provides more clarity in so much as it implies that all three dimensions are being taken into account (Vidal and Kozak, 2008).

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governments. Schmithüsen and Hirsch (2010) in a study on private forest ownership in Europe, based on the Global Forest Resources Assessment 2005, estimated the distribution of ownership as 58% for private forest and 42% for public in the countries of western and central Europe. However, the percentage share of private forest is significantly reduced if we consider the ownership structure at a European continental scale, including the Russian Federation, Belarus and Ukraine, where up to 100% of forests are publicly owned (Schmithüsen and Hirsch, 2010).

Considering the importance of State forest, the aim of this paper is to fill a knowledge gap about SFEs by examining their report practices. The background and study justification are briefly outlined based on the concept of CR reporting as well as an explanation about the role of State forests in European forestry. After describing the research methodology, an analysis of the reporting practices is presented. The final part of the paper gives the conclusions with some suggestions for supporting the development of CR practice.[3]

2. Background and study justification

2.1. CR reporting

Reporting and communicating about company's performance helps to demonstrate transparency and seriousness of intent about CR. Thus, big corporations nowadays generally produce annual reports of their responsibility efforts. This trend began as environmental reporting and has developed into a wider concept including other aspects of responsibility. Organizations build their CR through the Triple Bottom Line, meaning adding two dimensions (social and environmental) to an organization's traditional reporting methods focused on financial performance. This reporting practice is usually known as a sustainability report (Baviera-Puig et al., 2015). Under this approach the Global Reporting Initiative[4] (GRI) sustainability reporting guidelines were first developed with the aim of assisting "reporting organisations and their stakeholders in articulating and understanding contributions of the reporting organisation to sustainable development" (Kubo, 2004). Up to the KPMG (2015) survey about CR reporting, GRI guidelines remains the most popular voluntary reporting scheme worldwide.

Another trend that has become increasingly popular in the field of reporting practice in the last decade is the "Integrated report", a comprehensive document composed of a number of parts connecting non-financial data (including data from the activity report, ESG (Environmental, Social and Governance) reports and intellectual capital reports) with financial data (from the financial statements). Integrated reports are useful for stakeholders if they are delivered on time and prepared in a reliable manner. As a tool for communication, an Integrated report should contain relevant and complete information and take into account stakeholders' expectations and interests (Szczepankiewicz and Mućko, 2016).

However, there is some criticism about reporting practices and different guidelines. Moneva et al. (2006) state that preliminary evidence seems to show that reporting guidelines may be used in a biased way. For example, some GRI reporters' organizations do not behave in a responsible way with respect to social equity (health care companies in Africa) or human rights (some oil companies in developing countries). This can be explained by wrong interpretation of the concept of corporate responsibility during transmission into guidelines and indicators or by simplifying the concept. It often creates a gap between corporate performance and corporate impacts (Moneva et al., 2006). There is a need to check that reports are in line with the concept of corporate responsibility and represent the real impacts of company activities.

One of the main purposes of reporting is to track and improve company performance. Another is corporate communication. Communication with stakeholders is necessary to capture the reputation benefits of CR. External reporting provides an opportunity to stakeholders to judge an organization's performance and make knowledgeable decisions about possible cooperation or the way a company influences environment and society. However, one of the biggest challenges is to present information corresponding to all expectations of different stakeholders (Dawkins, 2004). Good reporting practice includes features such as relevance of information, access to more information when needed, comparability and consistency over time (Székely and Knirsch, 2005). However, in the last analysis of CR reporting, KPMG (2015) highlighted that many reports are still fragmented and inconsistent approaches are used with patchy transparency. A lot of important information is missing from many annual financial and corporate responsibility reports. The information that companies report and how they report it varies widely both within and between different geographical and industry sectors. There is therefore a need to develop clear, user friendly methodologies for reporting about company's sustainability progress (Székely and Knirsch, 2005). This topic has gained a lot of scientific interest in recent years because it is essential to understand mechanisms that contribute to effective CR communication tailored to each stakeholder (Du et al., 2010).

2.2. CR reporting in forestry

Among environmentally-sensitive sectors, the forest-based industry plays a crucial role in sustainable development, but it is often under-represented in studies about CR practice or reporting (Li et al., 2011). If we look at the history of CR in the forest sector, the current multi-dimensional CR reporting was introduced by environmental reporting. By the mid-1990s, most European forest products industries published environmental reports on a regular basis. In the last decade, forest sector companies have moved towards more comprehensive responsibility reports, with a focus on all three dimensions of sustainability: economic, environmental, and social (Panwar et al., 2006). In a study on CR in the forest-based industry Li and Toppinen (2011) summarised four key trends in reporting activities within the forest industry. One of the key issues is to acknowledge not only financial performance but also to disclose information about social and environmental impact and try to do this in an understandable and clear way for different stakeholders. Secondly, forest companies have understood and defined their CR largely based on activities related to sustainable forest management (SFM) and accountability, among a number of emerging economic, environmental and social issues. Third, the forestry sector has moved towards a more holistic and integral approach to CR and sustainability initiatives, where large forest companies shape their social performance strategies to fit their geographical profiles (Mikkilä and Toppinen, 2008). The fourth evident trend is that companies with a strong financial performance tend to pay more attention to their CR strategy. This means planning environmental and communication strategy, or adopting a more comprehensive risk management strategy; engaging different CR activities with more resources (including funds and staff) to deal with emerging sustainability issues (Li and Toppinen, 2011).

Monitoring forest health and vitality is important because any decline may have significant economic and ecological consequences for society, including loss of forest benefits and degradation of environmental quality. A range of natural and human-caused disturbances may affect the health and vitality of forests. Many international agreements (e.g. the International Tropical Organization, European Union, Montreal Process) therefore present indicators and criteria for monitoring forest management practices. However, it has been noticed that optimising

[3] In this paper the term "reporting practice" will refer to the way SFEs report about their performance to the public.

[4] GRI is an international independent organization that helps businesses, governments and other organizations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others. The GRI Sustainability Reporting Guidelines (the Guidelines) offer Reporting Principles, Standard Disclosures and an Implementation Manual for the preparation of sustainability reports by organizations, regardless of their size, sector or location. (www.globalreporting.org).