



5th Asia Pacific Conference on Contemporary Research (APCCR- 2019),
Adelaide, South Australia
ISBN :978-0-6482404-6-4
Asia Pacific Institute of Advanced Research (APIAR)
www.apiar.org.au

ENVIRONMENTAL DISCLOSURE PRACTICES OF SAUDI COMPANIES ACCORDING TO THE NEW GRI STANDARDS

Rahayu Abdull Razak , Raghad Al Hujaili and Raneem Al Ahmedi
Yanbu University College, Saudi Arabia.
Corresponding Email : abdulrazakr@rcyci.edu.sa

Abstract

Saudi Arabia's Presidency of Meteorology and Environment (PME)'s environmental plan to protect Saudi's health and natural resources advised Saudi listed companies to follow international benchmark standards for environmental reporting. GRI 2016 is the new standards to measure the environmental reporting disclosure. This study used GRI 2016 standards to measure environmental disclosure practices of Saudi Energy and Material companies listed on Tadawul in 2018. The result shows that environmental compliance (26%) is the most disclose information in the annual report and sustainability report in Saudi Companies, follows by emission (20.6%), material (16.7%) and energy (15.7%). The least disclose information is related to biodiversity and efficient and waste. The findings of the research will provide insights and the extent on the environmental issues disclosure and reporting of the Energy and Material public companies listed in the Saudi Stock Exchange (Tadawul) in accordance with GRI standards. This research will also serve as a determining tool for the potential ethical investors who are considering investing in the Saudi market to make the decision about their investments.

Keywords: Environmental disclosure, GRI 2016, Saudi Arabia.

1. Introduction

Saudi Arabia is the largest country of the Arabia Plate, occupying 80% of its area. Saudi Arabia has managed to maintain its leading position in the petroleum industry as the world's largest oil producer and exporter with over 18 percent of the world's reserve. The oil, gas and petroleum industry accounts for 50 percent of gross domestic product and 70 percent of the export earnings. The Saudi petrochemical industry has grown from a locally based industry to one of the main pillars of the Saudi economy and through this rapid growth it has generated some of the largest and most profitable companies in the world (Jadwa, 2017).

Environmental regulations were practically non-existence in Saudi Arabia prior to the mid-1990s. However, in recent years, Saudi Arabia started to become much more fixated on environmentalism. In 2012, the government passed nine new environmental laws that had a profound impact on sustainability. In 2014, a royal decree announced that all companies have five years to meet new air, water and noise pollution standards. All projects must fit into Saudi's plan for international development and must meet international benchmark standards as part of the Presidency of Meteorology and Environment (PME)'s environmental plan to protect Saudi's health and natural resources. One of the most used international benchmark standards for environmental reporting is the Global Reporting Initiative (GRI). Since its conception in early 2000, the GRI has rapidly become the leader among voluntary worldwide sustainability reporting system. In order to make the reporting standards up to date, GRI introduce the new

GRI standards in 2016. The new GRI standard which has started implementation on July 1, 2018 has six themes in total. The themes were divided into two groups of standards such as universal standards and topic specific standards. There are three aspects under universal standards and each aspect has its own code of standards.

In order to analyze whether Saudi companies follow in PME environmental plan of meeting the international benchmark standards, the objective of the study is to evaluate environmental practice of Saudi companies against the GRI 2016 standards. Specifically the study will examine whether companies' environmental information disclosure is adapted to the new GRI standards, especially the GRI 300 sustainability reporting standards on environmental issues.

This paper contributes to the literature on environmental reporting because it is one of the few studies that use GRI 2016 standards and one of the few studies conducted based on Saudi information. The research will help identify whether the largest and most profitable sectors in Saudi Arabia is following GRI standards and PME environmental program to help achieve vision 2030. Saudi Arabia is an emerging market but still lacks in-depth research on the extent to which Saudi firms provide disclosure of environmental matters in their annual reports. The findings of the research will provide insights and the extent on the environmental issues disclosure and reporting of the Energy and Material public companies listed in the Saudi Stock Exchange (Tadawul) in accordance of GRI standards. This research will also serve as a determining tool for the potential ethical investors who are considering investing in the Saudi market to make the decision about their investments. The researcher hopes that this study will contribute to the limited literature on environmental reporting in MENA in general and in Saudi Arabia in particular. Findings from this study will help Saudi companies to understand and implementing roles and regulation for such a disclosure.

2. Literature Review

Gallego et al (2018) conducted a study about analyzing the type of environmental information reported by international companies recorded in the Thomson Reuters database according to the international standards of the 2016 Global Reporting Initiative (GRI), specifically the GRI 300 sustainability reporting standards. They used the environmental information disclosed by 5414 international companies pertaining to 9 geographical areas. The results showed that specific sectors such as materials pay more attention overall to the GRI 300 environmental indicators compared to other industries.

The number of studies on environmental issues using GRI standards has notably increased in the last decades, however these studies use GRI 2000 indicators. Among the studies include Cardoni et al (2019) that conducted a study about evaluating the Intra-Industry comparability of sustainability reports in the Oil and Gas industry, Yang et al (2019) that conducted a study on the publicly listed firms in China, Guthrie and Farneti (2010) that conducted a study about the GRI Sustainability Reporting of the Australian Public Sector Organizations and Talbot and Boiral (2015) that conducted a study to “analyze the quality of climate information disclosed by companies and the impression management strategies they have developed to justify or conceal negative aspects of their performance”.

3. Methodologies

Data used in this study were collected from secondary source that focuses on report issued in 2018 that include sustainability report, annual reports and board of director reports. The data is covered for the year 2018 to observe the existence of GRI 2016 elements in the report. The data on sustainability reports were analyzed descriptively by analyzing the content of the sustainability report. The analysis was compiled by comparing the content of the sustainability report with the disclosure items contain in GRI 2016. Since sustainability report does not have any specific figures, therefore a dummy variables are created to differentiate the existence of

sustainability reporting elements in the data analysis. A score of 1 and 0 were given to indicate the presence of sustainability reporting element. A score of 1 indicates disclosure and 0 indicate non-disclosure. The reports were reviewed for any references to GRI indicators in the sustainability report, annual reports and board of director reports. The GRI 2016 specifically GRI 300 is about environment which has eight sub-units with respective codes. This study follows the same classification used by Gallego et al (2018) by grouping the standards into group. Group 1 is directly related to GRI that correspond to water and emission, Group 2 corresponds to energy and effluents and waste, Group 3 corresponds to an environmental compliance and supplier environmental assessment and Group 4 addresses materials corresponds with section 301 on materials.

Saudi Stock Exchange classifies Energy sector into two industry: Energy Equipment & Services, and Oil, Gas & Consumable Fuels. Material is classified into Chemicals, Construction Materials, Containers & Packaging, Metals & Mining, and Paper & Forest Products. There are a total of 4 oil and gas companies and a total of 42 material companies listed on Tadawul. Among the reports collected there were 4 companies without the sustainability report of 2018. The data were collected from annual report and board of directors' report of 2018 from Tadawul website. The data for the companies that follow GRI were collected from sustainability report. Table 1 discloses the final sample chosen for the study.

Table 1: Sample descriptive statistics

Total companies listed in Oil and Gas	4
Total companies listed in Material	42
Total companies with not complete information	4
Final sample	42

4. Analysis and Conclusion

The analysis revealed that a total of 1,702 indicators were analyzed from four different groups. Table 2 show the result of collected data from each groups. Based on the result, 164 (10%) data were disclose in all four categories and 1,538 (90%) did not disclose the information in their annual report. Based on the result, only 13 (3%) companies disclose all the information in Group 1, 48 companies (5.5%) disclose information for group 2, 19 (7%) companies disclose information in group 3 and 164 (10%) of the companies disclose information related to group 4. Majority of the companies (92.5%) did not disclose any information. The variations between the percentages are mainly due to the number of companies in each sector, the materials sector companies represent more than half the total sample, compared to the Energy sector, the effect of this can be seen in the group classifications disclosures in Group 2 and 4, which collects information about the energy, effluents, waste, and materials, respectively. According to the data collected, the four companies under Energy sector disclosed only 4 (1.6%) out of the 244 total data while the 42 companies under material sector disclosed the remaining 240 (98.3%) data.

Table 2: Result of the classification

GRI Index	Disclose	Not disclose	Total
Group 1	13	401	414
Group 2	48	826	874
Group 3	19	257	276
Group 4	164	1538	1702

Table 3: Environmental indicators for each series of GRI standards

GRI Indicator	Material	Energy	water	Biodiversity	Emissions	Efficient and waste	Environmental compliance	Supplier environmental assessment
Disclosure	38	36	24	1	47	8	60	12

Table 3 reveals specific data related to specific GRI Indicator. It shows that environmental compliance (26%) is the most disclose information in the annual report and sustainability report in Saudi Companies, follows by emission (20.6%), material (16.7%) and energy (15.7%). The least disclose information is related to biodiversity and efficient and waste.

Based on the result, it is clearly shown that Saudi energy and material companies did not disclose all the information in accordance with the new GRI standards in the annual report and sustainability report for the year 2018. The results show that companies disclose a low level of information regarding the environment and not following PME environmental plan of meeting the international benchmark standards. However further study is needed to identify the reason of non-disclosure of the items. Even though the result will contribute significantly, the present study only focusses on one year only, Future research should use a multiple research periods in order to examine the trend of environmental reporting in Saudi Arabia. Since only the Saudi energy and material sector is used in the present research, the generalization of the findings to the other sectors may be questioned. It is suggested for further research to study the other sectors in Saudi Arabia to compare and contrast between different sectors as well as countries and create a framework that can be safely generalized.

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