

UDC 334.021:657.335

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THE ROLE OF SUSTAINABILITY REPORTING FOR INTERNATIONAL COMPANIES' REPUTATION: A CASE OF CONTROVERSIAL INDUSTRIES

The article analyzes the impact of non-financial reporting on the reputation of companies operating in controversial industries, such as the tobacco industry, the soft drink industry and the alcohol industry. The main advantages of using non-financial reporting from the point of view of all stakeholders were investigated. An assessment was made of companies representing the controversial industries and conducting non-financial reporting. Three international companies were selected for this study, namely Coca Cola, British American Tobacco and Heineken. The non-financial reports of these companies were analyzed for economic, environmental and social aspects. In the course of the work, the importance of reporting on sustainable development for companies operating even in areas that cause harm to human health and the environment was emphasized. The impact of non-financial reporting on reputation as well as the attractiveness of the company to investors was demonstrated. The authors conclude the essence of publishing sustainability reports on a regular basis.

Key words: sustainability reporting, sustainable development, tobacco industry, soft drinks industry, alcohol industry, brand reputation.

JEL Classification: F18, Q56, M40

ВПЛИВ ЗВІТНОСТІ ПРО СТАЛИЙ РОЗВИТОК НА РЕПУТАЦІЮ МІЖНАРОДНИХ КОМПАНІЙ: КЕЙС У СУПЕРЕЧЛИВИХ ГАЛУЗЯХ

У статті проаналізовано вплив нефінансової звітності на репутацію компаній, що працюють у суперечливих галузях, таких як виробництво тютюнової продукції, алкогольних та солодких безалкогольних напоїв. На відміну від інших галузей, де соціальна відповідальність компаній не викликає сумнівів, в суперечливих галузях виробляються продукти, які шкодять здоров'ю людини та (або) довкіллю. Проаналізовано категорію репутації бренду як одного із найважливіших факторів, що впливає на процес прийняття рішень потенційними клієнтами. Досліджено взаємозв'язок репутації бренду та нефінансової звітності, або звітності зі сталого розвитку. Визначено основні переваги використання нефінансової звітності з точки зору різних зацікавлених сторін. Проведено оцінювання низки компаній, які представляють суперечливі галузі та ведуть нефінансову звітність. Доведено ключові переваги звітності зі сталого розвитку, зокрема, оптимізацію вартості капіталу, розбудову корпоративної культури, забезпечення прозорості компанії для покращення взаємодії зі стейкхолдерами. Для дослідження було обрано три міжнародні компанії, а саме British American Tobacco (тютюнові вироби), Coca Cola (солодкі безалкогольні напої) та Heineken (алкогольні напої). Нефінансові звіти цих компаній були проаналізовані за економічним, екологічним та соціальним аспектам. Незважаючи на різний профіль цих компаній, виявлено, що їх об'єднує багаторічна діяльність в напрямку сталого розвитку. Всі вони мають спеціальний розділ про сталий розвиток на офіційному веб-сайті та суттєвий досвід в розробленні та оприлюдненні інтегрованих звітів. Дослідження довело важливість звітування про сталий розвиток для компаній, що працюють навіть у сферах, що завдають шкоди здоров'ю людей та навколишньому середовищу. Було продемонстровано вплив нефі-

нансової звітності на репутацію, а також приваблює компанію для інвесторів. Виявлено, що компанії суперечливих галузей намагаються своєю соціально відповідальною діяльністю в першу чергу мінімізувати шкоду, яку вони завдають своєю продукцією. Ключовим завданням цих компаній є виведення на ринок якісного продукту, при цьому мінімізуючи негативний вплив не тільки від його виробництва, але і споживання. Це дозволяє забезпечувати та покращувати репутацію бренду навіть у суперечливих галузях.

Ключові слова: нефінансова звітність, сталий розвиток, тютюнова промисловість, галузь безалкогольних напоїв, алкогольна промисловість, репутація бренду.

Foreword. Today, most of the world's corporations pay considerable attention on the concepts of sustainable development and corporate social responsibility. At the same time, the social responsibility of companies in controversial industries is highly debatable. We include producers of sweet carbonated drinks, tobacco products, and alcoholic beverages as controversial industries.

In this context, large companies, which occupy leading positions in various sectors of the economy, are moving to a qualitatively new approach to corporate governance, focused on its results in the field of sustainable development. This approach involves regular reporting on the economic, environmental and social performance of the corporation, which enhances its investment attractiveness in the market, allows it to create a positive business image and business reputation before the state and society, increase transparency and investment attractiveness.

Analysis of recent research and publications. The issue of sustainable development reporting is directly related to CSR, which both foreign and Ukrainian scientists have widely researched. In Archie Carroll's works, special attention is paid to corporate social responsibility's ethical and philanthropic components [1]. Many researchers consider the corporate social responsibility of individual sectors of the economy. In particular, David Murillo & Josep M. Lozano examines the social responsibility of small and medium-sized enterprises [2]. The researchers [3–5] investigate energy enterprises' social and environmental responsibility. At the same time, the problem of social responsibility of business, whose products, and not only activities, can bring harm, is currently insufficiently researched. This applies primarily to companies producing alcohol and tobacco. Thus, Guido Palazzo & Ulf Richter conclude that corporate responsibility in the tobacco industry is based on a much more subtle approach to CSR and has only a transactional component and no transformational component [6]. Therefore, there is a need for a more in-depth study of corporate social responsibility and reporting on the sustainable development of enterprises in the so-called controversial industries.

The aim of the article. The aim of the article is to analyze the influence of sustainability reporting on brand reputation of companies, which operate in tobacco, soft drinks and alcohol industries.

Brand reputation and sustainability reporting. Nowadays, the consumers began to choose carefully what they consume, how they consume and what risks this consumption is associated with. That is why it is extremely important for companies to pay attention on sustainability.

Brand reputation is one of the most important factor that influences potential customers' decision-making process, therefore it needs to be monitored and improved. Reputation is a dynamic process during which the particular company implements the long-term goals and strategies [7]. Reputation depends on how and by what methods the

company's business activities are carried out. It reflects the deep economic and social aspects of the brand [8].

The company's reputation helps to attract new customers and retain existing ones, increase investment inflows and sales efficiency. In the long term, the reputation supports the company in the case of economic difficulties because of loyal customers. In scientific works [9; 10], the authors analyze the influence of sustainability on brand reputation and performance.

Non-financial reporting holds information on both economic completion and performance in the social and environmental spheres. Non-financial reporting under the Global Reporting Initiative (GRI) is the revealing of information and reporting on the company's performance in the area of sustainable development to internal and external stakeholders. The primary mission of non-financial reports in the study of sustainable development is to arrange a integral picture of the company's influence on three areas - environmental, economic and social – and to describe the conflicts between stakeholder goals, potential relationships between these areas. Non-financial reporting has various names and aspect of preparation – from the form and content defined by various international standards, to compiled according to their own ideas: sustainable development report, corporate social responsibility report, social report, progress report on the implementation of the Global Compact, integrated report etc [11].

Of course, a reputable brand directly depends on the company's activity in reporting on sustainable development, and the latter, in turn, is directly related to socially responsible business activities. Today, sustainable reporting on sustainable development is not mandatory. Like social responsibility, this activity is carried out voluntarily by business. At the same time, the number of companies engaged in this is increasing from year to year.

There are several benefits of sustainable development reporting: reporting helps to shorten the cost of capital; to improve the awareness of the company's management about the consequences of environmental and social activities of the company which leads to the enhancement of corporate culture. If the companies publish environmental, social and economic aspects of their activities, it can result in greater transparency, which reduces the incomplete information between the company and stakeholders and brings them benefits. Other reasons why companies report on sustainable development include non-economic motives – boosting reputation, moral obligation or pressure from competitors and society, and economic motives, such as enhancing innovation capacity and employee motivation, reducing business risks, building better relations with stakeholders, entering new markets and rising the market value of the company [12].

Brand reputation in tobacco industry. There are a lot of discussions and controversies concerning whether tobacco industry can be sustainable or not, which mainly influence the tobacco companies' reputation.

For example, British American Tobacco has been emphasizing the importance of sustainability in its operations for more than 20 years. Annual reports on sustainable development (ESG report, Combined Performance and ESG Summary, ESG Performance Data and ESG reporting criteria) are presented on the company's website, starting from 2009 [13].

In March 2020 BAT introduced a new logo and brand identity [13]. The previous one – the leaf of tobacco – for years was a well-known symbol of tobacco company. Today the company has a goal to decrease the health impact of their products as well as to minimize the harmful impact on the environment. That is why BAT created a new brand identity – A Better Tomorrow. The company tries to show that sustainability is not only important for them, but also it is the main priority in everything that BAT does.

The redesign in the company was connected not only with the new logo, but also with the change in the entire strategy based on environment, society and corporate governance priorities.

They focused more on the problem of reducing health impact by introducing a great variety of alternatives – less harmful products – such as tobacco heating products (THPs), vapour and oral products. The most innovative alternative nowadays is THPs, the main idea of which is to use a special system to heat tobacco, which leads to minimization of some harmful chemicals. Based on researches of Public Health England and UK Department of Health [14; 15], THPs contains less harmful and potentially harmful compounds than conventional smoking. Also BAT invests in research in order to assess the emissions, impacts and risks associated with their activities in order to minimize them in the future. Talking about environmental protection and BAT's way of reduction negative impact on it, the ESG Report of BAT [16] says that the company focuses on issues as climate change, water and waste as well as sustainable agriculture. BAT plans to be carbon neutral by 2030 and to reduce water consumption by 35% by 2025. BAT also are committed to bringing a positive impact on society, that is why the company has introduced Human Rights Policy Supplier Code of Conduct in order to protect human rights and the company contributes to prosperous livelihoods for farmers. Final part of ESG strategy of the company is corporate governance, which means to be transparent, using responsible marketing and

apply business ethics. The company has created Standards of Business Conduct, that includes aspects of corporate culture and ethics. All of these measures have the positive influence on BAT's reputation and profitability.

The dynamics of the change in the company's market capitalization (see Figure 1) shows changes after changes in the brand were implemented. Before the change in the logo and structure of the company, there was a drop in the market value of the company, which was caused not only by the Covid 19 situation, but also by the outdated system of the organization's development. After the implementation of the new policy, there is an increase that is equal to \$ 13.3 billion in literally 1 month.

Even in a company that produces tobacco products, we can see the positive impact of sustainability reporting on financial indicators.

Soft drinks industry is also subject of criticism mainly because its harmful composition and high level of environmental pollution. In 2018, huge cleanups were held with the support of the Greenpeace organization, the purpose of the action was to investigate pollution in 42 countries on 6 continents of our planet, the results of which revealed that such companies as Coca-Cola, PepsiCo and Nestlé – producers of soft drinks – are the largest polluters of the environment. After sorting almost 200 thousand tons of plastic that were collected on coasts around the world, the packaging of these brands was the most common. Moreover, 11,732 pieces of plastic that were collected during the cleanups were from Coca-Cola products. The coastal cleanup was run by volunteers who collected trash from the UK to Vietnam. In Europe, these three companies account for almost half of the sources of plastic pollution [18].

Coca-Cola is one of the leading international company that produces soft drinks, the revenue of which in 2019 is estimates as 37.7 billion of dollars. Sustainability isn't new for the company, as from its origin the company took part in many social projects as partnership with The Red Cross organization (1917); opening Coca-Cola Foundation (1984) that was focused on three main priorities – women, water and well-being; partnership with the World Wide Fund for Nature (WWF) (2007) the goal of which is related to freshwater conservation. Nowadays Coca-Cola is the world's most sustainable beverage company ranked by Vigeo Eiris, the international company of ESG researches [19].

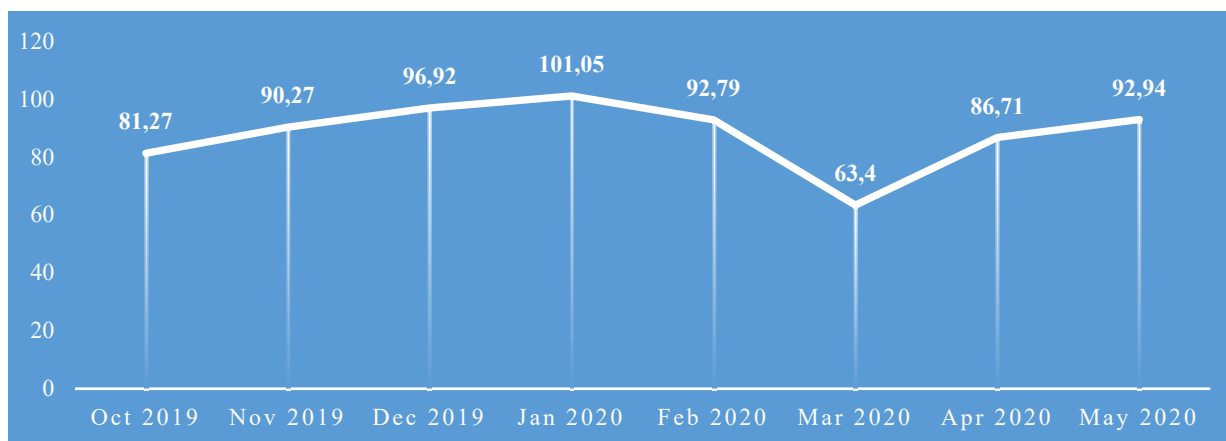


Figure 1. The dynamic of Market Capitalization of BAT in the period 2019–2020, billion USD

Source: [17]

Coca-Cola also has a dedicated sustainability section on its website and publishes an annual sustainability (Business & ESG Report) report [20]. Talking about Coca-Cola's contribution to climate change, in 2013 the company introduced the goal of reduction greenhouse gas emissions within the full value chain and in 2019 Coca-Cola reduce carbon footprint by 24%. Also the company implemented the campaign World Without Waste, the main idea of which is collecting and recycling consumed bottles and cans. In 2019 60% of bottles and cans were collected and refilled, and the goal for 2030 is to collect 100% of bottles and cans. Coca-Cola invest resources into research and development in order to redesign the packaging and minimize the environmental pollution, using recycled materials. For a decade managing water consumption has been one of the main priority of the company, Coca-Cola introduced a strategy to manage water use in its operations as well as supply chain. In 2019 the improvement in water efficiency since 2010 is increased by 18% and the goal for 2020 is 25%. Also Coca-Cola Foundation provides water to vulnerable communities as a part of its sustainable strategy. The social aspect of the company also should be noticed as Coca-Cola takes care about human rights, providing their employees with safe and supportive workplace.

Coca-Cola invests not only in production, distribution, marketing, energy saving, but also in social projects, investing part of its social responsibility in the development of the country and society.

The main strategic directions of social development carried out by Coca-Cola are: unlocking the potential of young people through the development of opportunities for sports; support for projects aimed at including members of vulnerable groups in society.

Coca-Cola's contribution to the development of local communities is as follows: creating a positive socio-economic impact in the areas where Coca-Cola operates; support for community programs on water management and environmental protection; implementation of internship programs and partnerships with educational institutions with a focus on youth employment; partnership with international organizations to provide assistance in emergencies in areas where Coca-Cola is present.

All these aspects of sustainable strategy influences the brand reputation and customers loyalty and sustainable reporting is essential to inform stakeholders about achievements. Thus, Coca-Cola estimates the amount of harm that their activities can cause and, with its sustainability strategy, tries to minimize the harm.

Alcohol industry faced a lot of skepticism in the sphere of sustainability. According to WHO [21], 3 million people die every year because of harmful use of alcohol, alcohol causes disabilities and poor health of people of all age groups. The production of alcohol requires a lot of resources like land, water and fertilizer, while the immense amount of bottles, cans, kegs and plastic causes the environmental pollution [22].

Heineken is an international brewing company, that is represented in 190 countries and has about 85 000 employees

worldwide. The company is placed on Global RepTrak 100 ranked by Research Institute in 2019 [23] the main idea of this study is to analyze how stakeholders estimate and perceive companies.

Heineken has introduced sustainability strategy and annually report about its achievements and progress. The core of its strategy is Brewing a Better World, which includes three main directions – People, Prosperity and Planet [24]. There are six focus areas: protecting water resources, reducing CO₂ emissions, developing sustainable supply chain, providing safe working environment, supporting social and economic wellbeing, promoting responsible consumption.

Based on Annual Report 2019 [25] Heineken company achieved reducing the water consumption in breweries by 33% and carbon emissions in its production by 40% comparing with 2008. The company also focuses on sustainable agriculture, which means to use raw materials from sustainable sources, and it has enhanced Supplier Code Procedure. The most relevant aspect of Heineken's strategy – is introducing responsible marketing and promoting responsible consumption, it means Heineken takes care about human health lifestyle rather than only profit. Moreover, Heineken invests into researches in the sphere of low- and no-alcohol drinks in order to increase the variety of drinks to offer. It is needed to mention, that the company creates positive social impact as The HEINEKEN Africa Foundation contributes to providing healthcare and water supply to vulnerable communities.

According to study carried out by Centre for Addiction and Mental Health [26] over the past 30 years, alcohol consumption has increased by 70 percent and continues to grow. Heineken is a good example of how to be a responsible company, how to pay attention on people and environment, and how to deserve a good reputation even in such harmful industry.

Conclusions. To summarize, sustainable development affects brand reputation, as it creates value for stakeholders, and this in turn helps to attract new customers and retain existing ones, attract investors and increase sales efficiency. Companies operating in controversial industries like tobacco, alcohol and soft drinks should implement sustainable development goals into their strategies and make them main priorities of their strategy [28]. Practice has shown that sustainability reports affect brand reputation, as they inform stakeholders about their goals and achievements in the sphere of sustainable development. Industries that have a negative effect on human health or pollute the environment can be considered as sustainable and have good reputation if, in return, they positively affect other aspects and minimize risks.

People will not stop smoking, drinking sugary drinks, or drinking alcohol. That is why, the company's task is to present a quality product on the market, minimize negative impact and continually improve products. If the company follows these recommendations, the brand's reputation will be good, even in a controversial industry.

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