International Journal of Management and Administrative Sciences (IJMAS)
(ISSN: 2225-7225)
Vol. 6, No. 7, (25-30)
www.ijmas.org

Evolution of Reporting on Corporate Sustainability

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Abstract

This paper explores the evolution of reporting on corporate sustainability. A brief history is provided to show the transition from the pre-industrial and post-industrial worlds to the latter part of the 20th century. Corporate sustainability reporting started in the late 1980s and many frameworks and reporting tools were developed. Recent trends of reporting provide a few of these that are widely used today. More companies are reporting on their sustainability efforts and as a result, have affected the way they are viewed by internal and external stakeholders and society as a whole. The future of reporting on corporate sustainability is clear. A common set of criteria will be established and a rulemaking board will emerge to standardize reporting for all corporations. Mandatory reporting is on the horizon.

Keywords: *sustainability, environmentally-friendly, corporate sustainability assessment, reporting, Global Reporting Initiative, United Nations Global Compact, declining resources*

1. INTRODUCTION:

The big three trends of declining resources, radical transparency, and increasing expectations have reshaped the way corporations report on their activities (Laszlo and Zhexembayeva 2011). In order to understand this evolution of reporting on corporate sustainability we must first understand what corporate sustainability means and how this evolution occurred. Corporate sustainability is defined by the Dow Jones Sustainability Indecies (2016) as, "a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments." A brief history will provide the backdrop and transition from where we were and how we got to where we are today. Recent trends, within the last 20 years, have shown that businesses that embrace corporate sustainability separate themselves from their competitors. These effects of reporting on corporate sustainability provide benefits to both internal and external parties that have a stake in the organization. The future is clear for corporations that report on corporate sustainability. Corporations that report on their activities and show how they are addressing social and environmental issues are putting themselves in a position to become a highly sustainable organization.

2. A Brief History

Prior to the industrial revolution the big three trends were not an issue. Resources were plentiful and environmental damage was minimal (Laszlo and Zhexembayeva 2011). Corporations existed to meet the needs of society and society accepted the inequalities in human rights and labor practices. The end benefits and needs of society guided the life of the corporation. As the industrial revolution began to unfold corporations began to separate themselves from society and concentrated on increasing wealth for their owners at the cost of society. The inequalities in human rights and labor practices were no longer accepted by the majority but corporations dominated society for the next century.

During the post industrial world the big three trends started to become an issue. The inequalities in human rights and labor practices were the center of the debate. Employees started demanding better working conditions and organized labor unions. Regulations were passed to preserve the environment and establish rules that corporations needed to follow. Society started to take notice and documented the inequalities in literature and the media. Equal right advocate groups began to form and applied pressures on corporations to eliminate the inequalities. These increasing expectations continue today but have increased in their intensity over the last several decades.

Corporations started to become more transparent but this transparency had become more radical over the last several decades with the advancement of technology. Declining resources had become an issue due to the increase in population and corporations increasing their wealth at the cost of society. Increased energy needs, food, and materials required to sustain the population had put a strain on our resources. Air and water pollution, soil erosion, forest and mineral depletion, and climate change had adverse consequences on society. These declining resources become apparent over the last several decades and are a major player in corporate sustainability (Laszlo and Zhexembayeva 2011).

Much of the reporting by corporations revolved around issues that the corporations caused and were raised by employees, customers, regulators and media. Corporations attempted to negate the negative effects or hide the facts in order to avoid the adverse press. By the 1970's, pressures were mounting on corporations and reporting started to migrate more to adherence to laws and regulations but were still adversary in nature. Several governmental organizations that mandated compliance were formed and many reporting requirements were established. Examples of these are the Environmental Protection Agency (EPA) and the Financial Accounting Standards Board (FASB). The EPA (2016) has established a number of compliance and reporting requirements as well as enforcement actions to ensure compliance by corporations that impact the environment through their activities. In 1975, FASB (2016) established reporting of contingent liabilities on pending litigation and clean up efforts that were imposed on organizations. This continued through the 1980's, and by the end of this decade corporations started to pay attention to environmental and social needs. The idea of meeting the needs of the present generation without compromising the ability of future generations to meet their own needs started to surface. This shift in mind-set highlights what corporate sustainability is all about and leads us into the recent trends of reporting by corporations.

RECENT TRENDS:

Prior to this shift in mind-set corporations reported on financial or economic information. Little regard was given to non-financial data which includes the social and environmental dimensions. Reporting on corporate sustainability and non-financial information is a relatively new concept and has only begun within the last 20 years. In the beginning corporations started to develop their own framework and reporting on what they thought was important. Over the course of time many frameworks and reporting mechanisms were established. The Global Reporting Initiative, Dow Jones Sustainability Indicies, and the United Nations Global Compact are highlighted here to get a sense of the reporting trends.

One of the first and most widely used frameworks and reporting tools was the Global Reporting Initiative (GRI). Originally funded in 1997, GRI (2016) is an international not for profit organization that helps corporations understand their impact on critical sustainability issues. Their mission is to develop and disseminate globally applicable sustainability reporting guidelines that helps organizations report on economic, environmental, and social dimensions of their activities. They launched their first version of guidelines in 2000, and today they are on their fourth version. The framework consists of four key elements including: sustainability reporting guidelines, sector supplements, indicator and technical protocols. The guidelines are the cornerstone of the framework. The other elements, when used in conjunction with the guidelines, help organizations understand and communicate the impact they have on issues such as climate change, human rights, and many others.

The sustainability reporting guidelines provide guidance for defining report content, quality, and establishing boundaries of the report. Standard elements of disclosure include strategy and profile of the organization and indicators related to economic, environmental and social performance. The need for sector specific disclosure is addressed by the sector supplements which identify 12 different industries. Indicator and technical protocols provide information for ensuring materiality and quality of information to be disclosed on the report.

Currently, over 9,000 organizations have registered with GRI and there are over 33,000 reports contained in their sustainability disclosure database. These reports are from corporations all over the world and highlight the fact that organizations are starting to address their impacts on the environment and society. Over the years, several organizations have partnered with GRI. Much of their initial work has been adopted by the United Nations, governments, and other companies producing a variety of additional frameworks and reporting tools. These can also be used by corporations to report on their sustainability efforts.

Another aspect of reporting is the development of sustainability financial indexes such as the Dow Jones Sustainability Indicies (DJSI). The DJSI (2016) was established in 1999 and was the first global index to track the financial performance of the leading sustainability driven companies worldwide. Their focus on corporate sustainability is based on two principles that include sustainable business practices and sustainable factors. Sustainable business practices are critical to the creation of long-term shareholder value in an increasingly resource constrained world. Sustainable factors represent opportunities and risks that competitive companies must address. Investors are recognizing the importance of corporate sustainability and are exploring ways to integrate environmental and social factors into their investment strategies.

Each year over 3,000 publicly traded companies are invited to participate in a corporate sustainability assessment. This assessment helps to identify companies that are best equipped to recognize and respond to emerging opportunities and risks resulting from global sustainability trends. The DJSI relies on the corporate sustainability assessment to select the most sustainable companies. In order to be included or remain on the indexes companies must continue their sustainability initiatives. The process is very complex and only the largest 2,500 global companies by market capitalization are eligible for inclusion.

Another recent trend established in 2005, is the United Nations Global Compact (2016). This project is the world's largest corporate sustainability initiative. It is asking companies to align their strategies and operations with the ten universal principles on human rights, labour, environment, and anti-corruption and to take actions that advanced societal goals. The principles are at the core of what this organization is trying to accomplish and highlight what all sustainable corporations need to strive to achieve. The following are the ten principles (1) businesses should support and respect the protection of internationally proclaimed human rights (2) make sure that they are not complicit in human rights abuses (3) businesses should uphold freedom of association and the effective recognition of the right to collective bargaining (4) elimination of all forms of forced and compulsory labour (5) effective abolition of child labour (6) elimination of discrimination in respect to employment and occupation (7) businesses should support a precautionary approach to environmental challenges (8) undertake initiatives to promote greater environmental responsibility (9) encourage the development and diffusion of environmentally friendly technologies (10) businesses should work against corruption in all its forms including extortion and bribery.

Corporations must operate responsibly in alignment with these ten principles and take strategic actions that support society around them. In order for companies to embed sustainability into their identity they must commit at the highest levels, report on their efforts, and engage locally where they have a presence. To date, over 37,000 reports have been submitted by more than 8,500 companies in 163 countries around the world. These reports submitted by corporations are called the Communication on Progress. They show a commitment to the United Nations Global Compact and provides valuable information to stakeholders.

Many other frameworks and reporting mechanisms exist. For example, corporations are starting to include sustainability efforts in their Management's Discussion and Analysis section of their annual reports. These recent trends indicate that corporations are starting to report on their sustainability efforts, not only to their shareholders and stakeholders, but society as a whole. By reporting on sustainability corporations are reaping the rewards and the effects cannot be ignored.

EFFECTS OF REPORTING

The effects of reporting on corporate sustainability are numerous and span across both internal and external parties that have a stake in the organization. Reporting on sustainability efforts communicates an organization's commitment to social and environmental concerns. This increases the awareness of all constituents and society at large. This section focuses on the main players inside and outside the organization and provides the effects of reporting from their perspective.

Internally, organizations that report on their sustainability efforts inspire innovative ways of looking at their business. By focusing on the entire spectrum corporations are taking a look at their business processes and are eliminating or changing inefficient and wasteful steps. New ideas are generated and new products are produced that provide value to society. This engagement with all internal players opens the doors for opportunities, such as new markets and business ventures. This holistic approach leads to superior sustainability performance and a competitive advantage.

From an external perspective, companies that are sustainable have long-term potential. Investors are looking to invest in companies that are sustainable. This increases capital for the organization and helps the company grow. Customers are looking for products that are innovative and environmental friendly. By being aware of what customers and potential customers are looking for allows an organization to increase profits and build brand awareness. A corporation can align with regulators to shape policy for the betterment of society. By becoming a leader in their industry by being sustainable, corporations are attuned to the needs of all affected by their activities.

WHAT THE FUTURE HOLDS

Sustainability reporting has significantly increased over the last couple of decades. Corporations are engaged in environmental and social issues in response to the big three trends. Frameworks and reporting tools continue to evolve and reporting on corporate sustainability has become normal for organizations. Much of this reporting has been voluntary, but mandatory reporting is on the horizon.

The frameworks and reporting tools that corporations use are varied and not standardized. As these frameworks and reporting tools mature and collaborate with each other the standards are becoming aligned. Eventually there will be a universal framework and reporting tool that will be adopted by the United Nations, governments, and financial markets. A sustainability board will be created that is similar to the FASB.

One such organization is the Sustainability Accounting Standards Board (SASB). The SASB (2016) was established in 2011. This not for profit's mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material and decision-useful information to investors. The SASB is developing sustainability accounting standards for more than 80 industries. They will adopt a set of universal principles that corporations can use to report on their sustainability efforts. Even though SASB is in its infancy this organization is showing promise and could emerge as the standard setting body for corporate sustainability.

Much of the reporting on sustainability is still voluntary. According to the Initiative for Responsible Investment (2016) several countries have adopted laws mandating one aspect or another of sustainability reporting. For example, the United States instituted the mandatory reporting of greenhouse gases in 2010 and Germany developed a sustainability code that describes what should be taken into account in sustainability and reporting analysis in 2011. But these laws cover only a portion of what sustainability is all about. As more laws are passed mandatory reporting will increase over the next several decades. This movement indicates that mandatory reporting is coming and corporations that embrace this movement are putting themselves in a position to becoming a highly sustainable organization.

CONCLUSION:

A sustainable organization reports on their activities to show how they are addressing social and environmental issues. This new dimension of reporting is a relatively new concept. The brief history showed the transition that reporting has taken over the years and how it has evolved. Recent trends, within the last 20 years, indicates that more frameworks and reporting tools will be available to organizations that want to report on their activities. Corporations that are reporting on their sustainability efforts are clearly separating themselves from their competitors and are reaping the rewards from investors, customers, and society. As frameworks and reporting tools continue to be developed and align with each other, a common set of criteria will be established. The United Nations, governments, and financial markets will adopt this criteria and mandatory reporting will increase.

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