

Sustainability Reporting

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Abstract

Due to significant problems such as global warming, decrease in bio-diversity, rapid depletion of natural resources and pollution, poverty and violation of human rights, short term and only profit-oriented approaches of businesses get reactions today. Therefore, apart from the financial perspectives, preparing business reports with also long term social and environmental aspects that will contribute to sustainable development becomes crucial. The reports with both financial and non-financial data of businesses together which emerge in order to meet this requirement could be stated as sustainability reports (Yükçü & Kaplanoğlu, 2016, p.63; Akarçay, 2014, p.1). In this study in which sustainability reporting is handled it will be appropriate to handle the concept of “sustainability” which is originally an old concept but its significance is brought to the agenda today for the businesses desiring to secure their sustainability due to the improvements in business world and increasing competition conditions and the related sustainable development, corporate management, stakeholders approach, transparency, accountability concepts so that the function of sustainability reports may become more easily comprehensible. In the first part of this study, before the explanations about sustainability reporting, the concept of sustainability, the related corporate management, corporate social responsibility, stakeholders approach, sustainable development, sustainability index concepts will be handled. In the study some explanations will be made about accountability and transparency concepts since they comprise one part of the book with the title of “Ethics in Global Supply Chain Management and Sustainability”. After the concept of reporting is handled and sustainability reporting and the standards for sustainability reporting are mentioned in second part of the study, it is planned to include conclusion and evaluation in last part of the study.

Concept of Sustainability

Concept of sustainability is the leading concept which left its mark on last century and was written on and at issue most and it implies the sustainability capacity of a case or process throughout an uncertain period in general meaning. With this general meaning sustainability could be comprehended and defined in many different forms and the issue of ensuring sustainability is handled with its various aspects within different disciplines (Yavuz, 2010, p.65).

Sustainability consists of three aspects which are economic, environmental and social. The sustainability approach requires including these three aspects in business strategies and reporting the performance about these three aspects. (Akarçay, 2014, p.1) Sustainability is essentially comprehended as the ability to maintain the functions, processes and productivity of ecology and ecological systems also in the future. Now there is a general consensus that resources of the world progress to depletion limit as a result of the actions of environment and human beings. (Yavuz, 2010: 65).

Since sustainability would only be ensured by using the resources of the nature at the speed to enable them automatic renewal, when the concept is appreciated in terms of economy, it is defined as tending towards renewable resources in production process and being responsible for the effects of production activities on environment by handling it with sustainable development (Yavuz, 2010: 65).

Sustainable development and sustainability concepts are defined in Brundtland Report¹ as the development which meets the requirements today without risking the ability to meet the requirements of next generations. While the concept of sustainability firstly emerged about environmental protection, it expanded as also including economic, environmental and social aspects (Akarçay, 2014, p.1).

Definitions of sustainability is not limited with the explanations above; since the concept is in all activities in life, it could be used with many issues together and attributed to different meanings. For instance, the usage such as sustainability of forests and wetland areas, sustainable cities, sustainable agriculture, sustainable architecture, etc. made the sustainability a complex concept at issue. However, for some people this concept is used by coupling together with many topics (sustainable development, sustainable growth, sustainable economies, sustainable societies, sustainable agriculture, etc.) unnecessarily. Sustainability in social aspect could be stated as meeting the requirements of human beings today without harming the opportunities of meeting requirements of next generations (United Nations, 2008). Also the fact that the concept of sustainability requires different strategies according to the considered issue complicates to make a commonly accepted definition (Yavuz, 2010, p.65).

Many businesses realized that sustainability and responsibility became the critical factors of stable economies and sustainable growth, accountability, transparency, sustainable products (or services) and the administrative cultures established on the cooperation with the stakeholders which consisted of all social parties that the business was in relationship in society and was affected from the activities of the business and affected the business with their activities will bring the businesses prestige and power and get competitive advantage. All these improvements necessitated a sustainable structure to be established in businesses. However, a sustainable accounting structure is also required one of the most important aspects of sustainable structure in order to ensure transparency and accountability. (Akarçay, 2014, pp. 1-3).

Sustainability Accounting

The data to be generated by the accounting process has an important role in obtaining and developing data about social and environmental activities of businesses. The most important data generated by leaning upon the sustainability strategy of the business is obtained from sustainability accounting in corporate sustainability. Sustainability accounting is defined as the sub-branch of accounting which handles the activities, methods and systems of the business to record, analyze and report firstly the financial effects caused by environmental and social factors, secondly the ecological and social effects of a defined economic system (business, production facility, etc.) and maybe the most important one, the interactions and relationships between social, environmental and economic issues constructing three aspects of sustainability (Burnett, Skousen ve Wright, 2011, pp.5-7). Sustainability accounting system essentially requires meeting the information needs of executives as in traditional accounting system. When we consider at this point, it could be said that main function of a sustainability accounting system is to identify the data to be collected about economic, social and environmental performance of the business, evaluate the collected data and provide feedback to the business after the evaluation.

In 2010 researchers in Harvard University Responsible Investment Enterprise realized the importance of non-financial data and started to conduct empirical studies on applicability of non-financial data on sectoral basis. The essential purpose in these studies was to determine specific and important issues of each sector and create a methodology in which performance indicators were analyzed that these issues were related. Secondly, the created methodology will be tested. The created method was implemented on six sectors and its results were published in 2010. Positive findings about the conducted study also revealed that it was necessary to establish an independent organization in order to determine all sector indicators and implement them. In order to meet this requirement Board of Sustainability Accounting Standards was established in July in 2011. Board of Sustainability Accounting Standards creates sustainability accounting standards to use the significant sustainability issues in the declaration for the public weal and investors by American businesses registered to Stock Exchange.

¹ Brundtland Report was prepared by World Environment and Development Commission in 1987. Brundtland Report in general directly associates abolishing poverty, equalizing in the distribution of benefits from natural resources, population control and the development of eco-friendly Technologies with the sustainable development. In this context, by beginning from the assumption that economic growth will be realized with an eco-friendly perspective it is suggested in the report that we should go into a long term growth period that will provide a reconstruction in order to both cope with the environmental problems in the world and prevent poverty with the understanding that developing countries will have great roles.

Board of Sustainability Accounting Standards is a non-profit independent organization accredited by American National Standards Institute in order to create standards. Standards of Board of Sustainability Accounting Standards include sustainability, environmental, social and governance aspects of activities and performance of a company. Sustainability accounting and its declarations aim to cover the financial accounting. When financial and sustainability information are appreciated together, they present a full outlook about financial and non-financial performance of the business and creating value.

When the standards created by the Board of Sustainability Accounting Standards are analyzed, they are;

- Applicable for all of the investors,
- Appropriate for and related with the sector in general,
- Expected to provide benefits over the perceived costs,
- Easy to be confirmed,
- Objective and supportive to make decision,
- At the highest possible quality,
- Reflecting all opinions of the stakeholders,
- Determined to support to access the entegrated reporting,
- Determined to support to harmonize with the international accounting standards.

Board of Sustainability Accounting Standards creates standards for more than eighty business fields in ten sectors in total as Health, Finance, Technology and Communication, Nonrenewable Resources, Transportation, Services, Recycling of Resources, Consumption, Renewable Resources and Alternative Energies, Infrastructure. All standards are expected to be completed and published in 2016.

Concept of Reporting and Sustainability Reporting

Preparing reports is a very time-consuming costly and hard process involving all departments and activities of businesses. Businesses release the data about all of their activities to the public through various reports that they prepare. Indeed, the purpose of preparing reports in general is to give the public true information about the activities of the businesses. However, each report makes this informing in different aspects and framework. There are some differences between the reports also in terms of the data that they include (Kaya, 2015, pp.118). The fact that the reports prepared separately couldn't present a comprehensive perspective for real value and performances of businesses causes the related sides to look for a different report. Economic results of business activities are comprehensively presented through financial statements traditionally. However, since the environmental and social effects of these activities cannot be stated financially, they cannot be reflected to the financial statements. In order to fill this gap, the reports known as sustainability reports are required.

A sustainability report is a report presenting the environmental and social results of businesses, one of the main actors of economic system, through the specific indicators for these results while presenting the economic results through the selected basic financial indicators. This report, on one hand, enables the business to fulfill its accountability by presenting the non-financial results of the activities to the stakeholders, on the other hand, demonstrates the overall scene of the effects created by the activities and provides the data about the positive and negative effects that the reporting business created in accordance with the development (Selimoğlu & Çalışkan, 2015, p.3). Corporate social responsibility and sustainability reports are the reports in which the value created for the stakeholders are stated through financial and non-financial declarations.

In web site of Global Reporting Initiative Sustainability Reporting Guide www.globalreporting.org presenting international sustainability framework commonly accepted in the world, corporate social responsibility and sustainability reports are defined as the reports that “economic, environmental, social and governance performance data are stated, communication of positive and negative effects of the institution within sustainability are made and the data affecting the policy, strategy and operations of business are continuously transferred” (Çetin, Varan & Fışkın, 2015, pp.10-11). According to OECD Corporate Administrative Principle, fairly, responsibility, transparency and accountability are the main concepts to build an effective corporate administrative system. While the financial information about business activities is released to the public through financial reports, non-financial information are released through sustainability reports. In our country and in many countries businesses prepare the sustainability reports on a volunteer basis. In the countries where sustainability reports are prepared on a volunteer basis sustainability indices are very important for the preparation of the reports and encouragement to publish them (Aracı & Yüksel, 2016, p.103; Çetin, Varan & Fışkın, 2015, pp.32).

Sustainability reports developed by using the framework of global reporting initiative include the results which occurred as a part of the commitments, strategy and management approach of the corporation during the reporting period. Reporting framework of global reporting initiative serves as a commonly accepted reporting framework about economic, environmental and social performance of a corporation. Sustainability reporting is the practice of measuring and declaring the corporate performance and being responsible for a sustainable development. In this sustainability report, sustainability performance of the corporation preparing the report is presented as including positive contributions and negative effects².

The reason why businesses prepare sustainability reports could be listed as the following.

- Increasing the opportunity to follow the progress towards certain goals,
- Facilitating the implementation of environmental strategies,
- Enabling more awareness about environmental issues within the business,
- Ability to state the message of the business inside and outside of the business clearly,
- An increase in credit rating due to the transparency,
- Providing cost savings and productivity increases,
- Integrating risk management,
- Helping to develop innovative products,
- Increasing the morale of the employees, prestige of the business, business development opportunities and brand loyalty.

Sustainability reports also help the users in businesses to manage the risks about environmental and social events (Özçelik, Öztürk & Gürsakal, 2015, pp.34-36). One of the most significant difficulties about the sustainability reporting is to present the effects of corporate activities in three aspects as environmental, social and economic even with the main lines.

Moreover, these effects include also the conflicting targets, the interaction among them and decision making processes. In order to use a sustainability report as a tool for realizing the expected goals, a balanced and reasonable presentation of sustainability performance of a corporation should be made with its both positive and negative results. However, businesses could be more willing to declare the results of their activities with positive effects rather than the results with negative effects. However, when we consider the issue especially in terms of sustainability, especially negative effects are required to be reported in order to reduce the negative effects and manage them. For that reason, analyzing and approving what the data in a report is in fact or what they should be, whether they are reported or not increase the reliability and availability in decision making of the contents of this report.

However, unlike the financial reports including the data that can only be measured financially, sustainability reports also include various non-financial data. This requires a large team working together including engineers and accountants in preparing the sustainability reports and supervising the accuracy of the data in the report (Selimoğlu & Çalışkan, 2015, p.3).

Businesses focus on increasing their stock value for a long period, making sales with the minimum costs and maximum market prices, therefore, reaching the highest profit. However, they were reluctant to use the technologies to control the industrial pollution and ignored the harms to the nature. Because they increased the costs and required different measurement techniques. The demands of the costumers about the sustainable development made the businesses consider the social and environmental results of their activities besides the economic activities. Because activities of the businesses that will make social and environmental benefits started to influence the preferences of their customers in purchasing process.

Traditional accounting and financial reporting is incapable in measuring this effect. Along with the concept of sustainability, reporting the activities which derive from outer environment and have effects to the corporation has become one the main functions of accounting. Therefore, this concept has made also the social performance of the businesses a current issue by considering lots of their social stakeholders along with the financial performance. On the other hand, the concept of reporting is begun to be stated as a concept including all of the data communication process rather than only external reporting or financial reporting.

² <https://www.globalreporting.org/resourcelibrary/Turkish-G3-Reporting-Guidelines.pdf> (Erişim Tarihi: 01.06.2016).

Through reporting, not only stakeholders are informed about financial structure of business, but also people out of the business utilize the data (Senal & Ateş, 2012, pp.85-88).

Business world in 21th century presents the gradually increasing importance of the interaction of businesses with their stakeholders and directs businesses to act within social responsibility awareness. Theory of stakeholders enlarged the profit maximization of businesses and the aims to create value for stakeholders and presented the necessity for creating value for also the other stakeholders out of shareholders. According to this theory, the purpose of a business is to create value for all stakeholders and maximize this value.

Sustainability reporting has become a significant instrument which is used for increasing corporate transparency for stakeholders, increasing the brand value and prestige of business in long term, supporting innovation, managing the risks, developing management systems in environmental, social and economic fields, increasing the awareness and motivation of employees, using the long term funds with suitable financing conditions, creating financial value by increasing the stock value and ensuring business durability covering all of these factors (Akarçay, 2014, p.3).

A sustainability report is a report presenting the environmental and social results of businesses, one of the main actors of economic system, through the specific indicators for these results while presenting the economic results through the selected basic financial indicators. This report, on one hand, enables the business to fulfill its accountability by presenting the non-financial results of the activities to the stakeholders, on the other hand, demonstrates the overall scene of the effects created by the activities and provides the data about the positive and negative effects that the reporting business created in accordance with the development (Selimoğlu & Çalışkan, 2016, pp.1-3).

Guiding organization in preparing and presenting sustainability reports is The Global Reporting Initiative (GRI). GRI was established in 1997 in Boston. GRI has its origin in non-profit Coalition for Environmentally Responsible Economies-CERES and Tellus Institute in USA (www.globalreporting.org). GRI prepares and publishes Sustainability Reporting Guidelines in order to guide the businesses in preparing sustainability reports (Çetin, Varan & Fışkın, 2015, pp.15-17; Aracı & Yüksel, 2014, p.109). Recently, businesses have begun to include their activities about sustainability in their operations, relationships with their supply chain and investment decisions with both investor and public pressures and the conducted regulations. Also more and more businesses gradually report their sustainability activities and their responsibilities for keeping the environment clean, acting humanly and managing the financial targets. Sustainability reports include the economic, environmental and social indicators helping to follow the progress towards sustainable practices. Sustainability reports have become an important part of the data used by internal and external decision makers.

Evaluation

For many of the businesses sustainability activities are not “applicable and useful activities” and also they become a basic requirement to increase the business value in long term and maintain their profitability. However, environmental and social management activities that businesses have started to implement recently are not often integrated to general management systems of businesses. Even in profit-oriented businesses, since environmental and social management is not related with the economic success of the business, economic contribution of environmental and social management could not be measured. The fact that social and environmental measurements are included by a balance score card will increase the success possibility of business in reaching the strategic targets by transmitting the importance of sustainability strategy to the organization.

Sustainability is a more comprehensive concept than environmentalism. It means living and working without endangering social, economic and natural resources. However, the concept of sustainability in business life means managing human resources and natural resources by striving as much as we manage the financial resources and assets, in other words expanding the content of our awareness. The increase in awareness in this field will make our choices, “correct cost / opportunity cost” to be comprehended exactly. Sustainability reporting is an important instrument for managers to use for analyses in terms of internal and external use. It benefits for stakeholders by providing more transparency. Because stakeholders demand transparency from businesses and would like to be informed about their social and environmental performances in addition to their financial performances. “Sustainability” which is an alternative for traditional growth and profit maximization emphasizes that businesses are not only responsible for creating economic value, but also they have responsibilities in social and environmental issues as well.

Researches with businesses publishing sustainability reports and investors reading these reports indicate that sustainability reports are useful for both preparers and readers. Almost all businesses that prepared the sustainability reports or at preparation phase stated that sustainability reports made contributions in understanding of value creation and development of awareness in their corporations. We can see that the businesses who have already internalised the sustainability and prepared advanced sustainability reports adapt themselves to integrated reporting more easily. However, the most important benefit for the stakeholders is that it is possible to get a holistic and comprehensive data.

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