Archives of Business Research – Vol.7, No.7
Publication Date: July. 25, 2019
DOI: 10.14738/abr.77.6751.

Baker, P., & Baker, J. K. (2019). User Perceptions of Sustainability Reporting. *Archives of Business Research, 7(7),* 46-53.

User Perceptions of Sustainability Reporting

Pamela Baker
Texas Woman's University

J. Keith Baker
North Lake College

ABSTRACT

Over the past two decades, accounting firms and corporate stakeholders began measuring and reporting social and environmental performance along with financial reporting measures in the form of a sustainability report. The number of Standard & Poor's 500 Index (S&P 500®) firms issuing sustainability reports grew from 20% in 2011 to 81% in 2015 (Coppola, 2016) and continued to do so through 2018 (Aquila, 2018). Such reporting suggests that activists, environmentalists, and internal users find reports to be beneficial in enhancing the company's ability to achieve long-run goals. This paper reports the opinions of senior executives about the usefulness of sustainability reports. Results indicate that executives read and use these reports as part of the complete analysis of their own and other firms, and they do not believe that additional environmental or sustainability disclosures are necessary.

Keywords: sustainability reporting, CPA opportunities, environmental reports, global reporting initiative (GRI)

INTRODUCTION

Many companies around the world, including 81 percent of current S & P 500® firms, voluntarily report their economic, societal, and environmental impacts. This is most often referred to as sustainability reporting (SP). SP presentations vary as to their content and emphasis and are known as sustainability reports; corporate responsibility reporting; corporate social responsibility reporting; environmental, societal, and governance reporting (ESG), and economic prosperity, environmental quality, and social justice reporting as part of the triple-bottom-line (Elkington, 2000).

While these voluntary reports grow in number, little is known about the use of these reports by corporate management. This paper reports the opinions of senior executives about the usefulness and sufficiency of sustainability reports.

BACKGROUND AND LITERATURE REVIEW

Intensive pressure from environmentalists, activist investors, stock analysts, unions, financial planners, financial analysts, stockholders, cities, and states wanting more accountability and transparency created a large group of stakeholders desiring environmental focus. Due to pressures from these many stakeholders, the Environmental Protection Act and The Emergency Planning and Community Right-to-Know Act (EPCRA) passed in 1986. These acts require corporations to report information about releases of more than 600 toxic substances (EPA, 2016). Additional regulation includes the SEC Climate Change Disclosure Guidance (SEC, 2010) along with the Dodd-Frank Act executive compensation disclosure requirements. The SEC guides the Dodd-Frank disclosures.

Studies have shown wide acceptance of SP by the Global Fortune 250. This is documented in a 2013 study performed by the Center for Corporate Citizenship of Boston College and Ernest &

Young showing that 95 percent of the Global Fortune 250 issued sustainability reports (CCC, 2013). A 2015 report by KPMG (KPMG, 2015) shows that the Global Fortune 250 had by sector the following SP rates of reporting:

Market Sector	Percentage of Firms Issuing SPs
• Consumer Markets	92%
• Technology, Media & Telecommunications.	100%
• Automotive	100%
• Oil & Gas	97%
• Construction & Materials	90%
• Banking	100%
• Insurance	100%
• Telecom	100%

Studies widely report that before 1999 that most SP focused primarily on environmental reporting. One 2005 report states that close to 70 percent of sustainable type reporting show titles that suggested they were providing Environmental Health and Safety reports (KPMG, 2005). While several standard-setting, sustainability tracking, or assurance organizations have similar results, over 80 percent of firms issue SP, although only 46 percent are named sustainability report or contain such a phrase in the title.

Several of the ten largest public accounting firms have sustainability practices. Most recognize this as an emerging practice opportunity, promoting these services from 2010 forward (Walker, 2011). Some actively promote the idea of SP and the evolution to integrated reporting of financial and non-financial data. Those national and international firms have begun including information from their 10-K and annual reports into their SP and incorporating this information by reference. This has spurred the accounting and other firms to offer their assurance services to make sure that these reports are accurate, address materiality, and relevance (AICPA, 2015). The accounting profession has been involved in and a driver of the process to date-- in particular the role of national economic and institutional structures in the development of practices of international governance and sustainability standards. There is an interesting tie in between those activists, and those who, seeing the handwriting on the wall, have sought ways to influence the national settings that will affect this opportunity and the structures eventually codified by international regulators. Many pioneers in the development and evolution of SP have been Certified Public Accountants, often serving as founding members of international sustainability advisory boards, commissions, research institutes, and other corporate reporting.

CPAs have demonstrated further their role as pioneers in sustainability's evolution through several key leadership positions, including serving as founding members of many of the worlds recognized sustainability think tanks and corporate reporting bodies that have supported an expansive viewpoint on value creation. Some of these organizations include the United Nations Global Compact (UNGC), World Business Council for Sustainable Development (WBCSD), Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC) and Sustainability Accounting Standards Board (SASB). To drive the importance of the accountancy profession on this process, one needs to look at an unusual starting point where the heir to the throne of Great Britain started what has been called the "The Prince's Accounting for Sustainability Project" sometimes referred to as (A4S) in 2004. A host of stakeholders embraced this project, and the IIRC grew out of the GRI and the A4S. It was formally established in 2010.

Research into how the initial adoptions of multiple and evolving sustainability standards began to merge into fewer and more cohesive groups previously listed and the rapid growth of SP reportage worldwide. The GRI now may have the most widely accepted method of SP reportage methodology for two reasons: one--it was involved in the creation of the IIRC and two-- it allows companies to use GRI guidelines in several ways with varying degrees of rigor. Many firms migrated to their G3 series of standards that include principles for defining report content. The GRI G 3 series of standards requires that a standard disclosure of the companies profile be provided that includes sections on strategy and analysis, organizational profile, parameters of governance, commitments, and engagement. The main body of the report is around providing standard disclosures of six performance indicators. These indicators include:

- Economic Indicators:
    - Economic Performance
    - Market Presence
    - Indirect economic impacts
- Environmental Indicators:
    - Materials
    - Energy
    - Water
    - Biodiversity
    - Emissions, Effluents, and Waste
    - Products and Services
    - Transportation
    - Overall
- Labor Practices and Decent Work
    - Employment
    - Labor and Management Relations
    - Occupational Health and Safety
    - Training and Education
    - Diversity and Equal Opportunity
    - Equal Remuneration for Women and Men
- Human Rights
    - Investment and Procurement Practices
    - Non-Discrimination
    - Freedom of Association and Collective Bargaining
    - Child Labor
    - Forced and Compulsory Labor
    - Security Practices
    - Indigenous Rights
    - Assessment
    - Remediation
- Society
    - Local Community
    - Corruption
    - Public Policy
    - Anti-competitive behavior
    - Compliance
    - Customer Health and Safety
    - Product and Service Labeling
    - Marketing Communications
    - Customer Privacy

- Compliance

This GRI SP reporting format has continued to evolve into the now widely-used G4 format that covers 84 performance indicators, significantly up from the 55 performance indicators in the GRI 3.1 format that preceded it (which can still be used for reporting purposes). Some professionals and regulators suggest that the GRI Framework is the de facto standard for sustainability reporting (Young, 2012). Many large corporations use or reference the GRI Reporting Framework in their sustainability reports, and this is the reason for such a high percentage of companies seemingly using GRI SP reportage format even though those doing the reporting state that they are using the format if only their refer to one of the 84 performance indicators by reference.

Trends indicate that investors are taking ESG disclosures seriously is that a large and growing number of G250 companies are going further than just investing in measuring and publishing such data (Derwall, 2011). As many as 46% of those reporting paid for third-party verification GRI performance indicators, primarily large international accounting firms (Abrex, 2013). Over 30 percent of the G250 issued restatements relate to their ESG data, showing that they realized that a critical mass of stakeholders monitors and are attentive to the legitimacy and accuracy of this data (Borgers, 2013).

Mutual fund managers who invest in socially responsible companies find that the returns on those tested with portfolio weights in sin stocks compared to weak-ESG and strong-ESG companies do not reveal a significant payoff associated with ESG profiles (Horst et al., 2015). The Horst et al. (2015) sample of mutual funds used regressions that involving these alternative weights further corroborate that exposure to socially sensitive (progressive) stocks relates to fund- and location-specific factors rather than any predictive characteristics derived from an ESG analysis. In this study and others, they have sought to view a narrow slice of SP reporting companies with only some connect with the level and assurance of the ERI performance indicators and no serious study of how Instigating Stakeholders either use or value the SP reportages available today (Horst, 2015).

METHODOLOGY

Empirical data were gathered from companies with complete GRI database reports that are in full G3.1 or G4 SP compliance to look at extent of reporting. The main body of these reports gave standard disclosures of six performance indicators. Companies included were part of various industries, including those whose data was provided to GRI from their data Partners. SP reports were compared to collected SP documents and further reviewed to select only those that used a third-party review. The final selection of industries used are all larger firms within the S&P 500® Index. Surveys distributed appropriate representatives from the following group of companies show the extent of reporting.

Name of company	**Stock Symbol**	**Length of Sustainability Report**
3M Company	MMM(NYSE)	173 pages
Ball Corporation	BLL (NYSE)	38 pages
The Dow Chemical Company	DOW (NYSE)	148 pages
Monsanto Company	MON (NYSE)	117 pages
PP & G Industries, Inc.	PG (NYSE)	32 pages
Praxair, Inc.	PX (NYSE)	78 pages

Chief financial officers, controllers, and chief accountants within the selected industries (CFOs) as well as investment analysts, sustainability analysts, and select regulatory figures that follow specific companies and industries answered questions regarding the use and effectiveness of SPs.

SURVEY QUESTIONS AND RESULTS

Chief Financial Officers/Controllers/Chief Accountants – Materials Industry:

- Does your firm issue a formal GRI-compliant SP for 2015? (**50% Yes / 50% No)**
- If your firm did not issue a formal GRI compliant SP in 2015, do you intend on beginning issuance in the next 1 to 2 years? (**40% Yes / 60% No)**
- Do you are a member of your staff or a risk assessment employee or named sustainability executive read other competitors SP? (**90% Yes / 10% No)**
- If you issue a GRI compliant SP do you or a member of your staff or a risk assessment employee or a named sustainability executive compare and contrast the content with your SP and issue a summary report to the senior management group or board of directors – (**60% Yes / 40% No)**
- If you create a GRI compliant SP represent at your company using the following scale:
    - 1 -- Lower importance – A necessary compliance, a low imperative, but necessary.
    - 2 -- Good for SEC-required disclosures and keep stakeholders with a sustainability bent on board.
    - 3 -- An SP is a useful exercise, but still a work in progress, still a mandatory disclosure report.
    - 4 -- It is a good methodology for self-inspection and reflection and SEC-required disclosures.
    - 5 -- A useful tool for improvements in profitability and planning in addition to fulfilling stakeholder needs and SEC mandatory disclosures.
      (Average rating 3.7)

Investment Analysts

- Do you incorporate analysis of the companies you follow as an analyst annual sustainability report in your overall analysis of their performance and future prospects? (**70% Yes / 30% No)**
- If you answered no to the use of a company's SP for your analysis, what is the key reason? (Answers are fluff. For many, this is still primarily an environmental impact report. The respondents did not appear to understand the jargon and its tie to current or future success. Several state that they get more out of Q & A during quarterly conference calls for investors.)
- If you do incorporate analysis of a company's SP into your analysis, has it benefited your overall ability to forecast earnings or general trends more accurately? (**Yes 43% / No 57%**)
- Does your firm actively or routinely invest its time and energies by engaging in dialogue with the IIRC, SASB or GRI or other SP standard-setting organization? (**Yes 40% / No 60%)**

Sustainability Activists

- Do you read all the SP's that are issued within the industry's you are following for regulatory or other reasons? (**Yes 100%)**
- Is the list of industry participants that are compliant with GRI performance indicators sufficient to satisfy your needs? (**Yes 60% / No 40%)**
- How could the SP reports from this limited selection be improved to meet your needs? (One respondent did not know what GRI is but liked what she saw after doing an

internet search. Another respondent did not think that much of the reports responded to the spirit of how the GRI performance indicators. Another thought the most assurance firms were still not neutral because they were the firm's financial auditors or did other engineering work for the firm.)

- Are you currently satisfied with the progress towards full integration reporting? (**Yes 30% / No 70%)**

Regulatory Figures

Are you aware of the rapid movement by publically traded firm globally to issue detailed sustainability reports? (**Yes 65% / No 35%)**

- With which of the following standard-setting bodies have you interacted? (IIRC – **50%,** SASB – **25%,** GIR – **40%)**
- Do you feel that current regulation covering disclosures promulgated by the SEC are adequate? (**Yes 80% / No 20%)**
- Have you ever had the opportunity to read an SP? (**Yes 60% / No 40%)**
- Do you feel after reading the short description of SP that you would support enlarged mandatory disclosures for greater transparency? (**Yes 35% / No 65%)**
- After reading the short description of research on the rapid adoption of SP reportage by industry voluntarily, would you support standardization of SP reporting processes on a limited basis? (**Yes 50% / No 50%)**
- Will you take time to read company issued SP that are within your regulatory scope of interest in the future? (**Yes 95% / No 5%)**

DISCUSSION

Almost all respondents indicate that they read competitor SP reports, find them to be useful, and consider them part of an overall analysis of a company. Further, the survey indicates that many firms do issue SP reports or plan to begin doing so soon, and they report this data to their respective Boards. This likely creates new opportunities for CPA firms to serve these clients by verification of completeness of reports in compliance with regulatory expectations. Responses indicate that they read all of the SP reports issued that relate to the respondent's industry. Some expressed skepticism in the validity of reports issued by the company's own auditing firm. This concern may be a hindrance to CPA firms' ability to become the primary group to validate these reports. CPA firms should find ways to show the value of SPs to their clients. Overall, the respondents did not believe that more reporting is necessary and do not support enlargement of mandatory disclosures. However, Kaplan (2016) reports it highly likely that the SEC will continue to focus upon "perceived deficiencies in non-GAAP disclosures." Therefore, the accounting community needs to be aware of and well informed about current and potential environmental and sustainability reporting standards.

LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

This study is an introductory study with a limited number of responses. While helpful in developing an understanding of professionals' use and value of sustainability reports, more research is needed moving forward to understand the value and use of these reports. Since sustainability reporting is not yet fully developed, reports and their use may change. Forms of effectiveness and value for these reports should be developed and measured. Research might examine trends of use and increase in several firms reporting. Case studies might query the pros and cons of sustainability reporting. Environmental research could explore correlations in reporting and environmental improvements. Research might work to find the extent of users. This is essentially a new line of study, and much is possible.

CONCLUSION

The importance of environmental reporting is growing, and many people are using these reports. Accounting has a unique opportunity to capture many new clients as these reports increase in number. New reporting standards for sustainability will continue to develop, and accounting firms should be both aware of and involved in the process of creating these new standards.

References

AICPA (2015). "The CPA's Role in Sustainability Assurance. Balancing Priorities: Profits, People and Planet". Official Brochure issued in 2015 by the American Institute of Certified Public Accountants. Retrieved from: <http://www.aicpa.org/InterestAreas/BusinessIndustryAndGovernment/Resources/Sustainability/DownloadableDocuments/AICPA-Sustainability-Assurance-Brochure.pdf>

Arbex, Nelmara et al. (2013). "The external assurance of sustainability reporting." Global Reporting Initiative, Research Report. 2013. Retrieved from: < https://www.globalreporting.org/resourcelibrary/GRI-Assurance.pdf>

Aquila, J. (2018) The current state of accountability reporting: A work in progress.

Journal of Accountancy. July 2018. Accessed online at https://www.cpajournal.com/2018/07/30/the-current-state-of-sustainability-reporting/

Borgers, Arian et al. (2013). "Stakeholder relations and stock returns: On errors in investors' expectations and learning." UCD & CalPERS Sustainability & Finance Symposium, March 2013. Retrieved from: < https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2222897>

CCC (2013). "Value of Sustainability Reporting." A study by the Center for Corporate Citizenship and Ernst & Young LLP. Retrieved from: <http://www.confluencellc.com/uploads/3/7/9/6/37965831/valueofsustainabilitysummary.p

Derwall, J., Koedijk, K., Ter Horst, J.R., (2011). A tale of values-driven and profit-seeking social investors. Journal of Banking and Finance 35, 2137-2147.

Elkington, John (2000). "Cannibals with Forks: The Triple Bottom Lind of 21st Century Business. Journal of Business Ethics 23.2 (Jan 1, 2000): pp.229-231

EPA (2016). "What is EPCRA?". Environmental Protection Agency. Retrieved from: < https://www.epa.gov/epcra/what-epcra>

Horst, Jenke ter, et al., (2015). "Do social factors influence investment behavior and performance? Evidence from mutual fund holdings". Journal of Banking & Finance, Volume 60, November 2015, Pages 112–126

Kaplan, M. (2016). Early returns: Companies change non-GAAP financial disclosures following

Recently issued SEC guidance. Retrieved from: http://clsbluesky.law.columbia.edu/2016/09/08/early-returns-companies-change-non-gaap-financial-disclosures-following-recently-issued-sec-guidance/

KPMG (2005). "KPMG International Survey of Corporate Responsibility Reporting 2005, KPMG International". Retrieved from < http://oldwww.wbcsd.org/web/publications/news/kpmg2005.pdf>

KPMG (2015). "The KPMG Survey of Corporate Responsibility Reporting 2015". November 24, 2015 Retrieved from: < https://home.kpmg.com/xx/en/home/insights/2015/11/kpmg-international-survey-of-corporate-responsibility-reporting-2015.html>

SEC (2012). Final Guidance on Reporting on Conflict Minerals. 17 CFR PARTS 240 and 249b

[Release No. 34-67716; File No. S7 -40-10] RIN 3235- AK84. Retrieved from: < https://www.sec.gov/rules/final/2012/34-67716.pdf>

Walker, Leon (2011). "Big Four Audit Firms Lead Sustainability Assurance Services." *Environmental Leader*, June 6th, 2011. Retrieved from: <http://www.environmentalleader.com/2011/06/22/big-four-audit-firms-lead-sustainability-assurance-services/#ixzz4N7IPa2cT>

Young, S.T. & Dhanda, K.D. (2012). Sustainability: Essentials for Business. Thousand Oaks, CA. SAGE Publications, Dec 5, 2012. pp. 246-249.

APPENDIX A – ADDITIONAL RESOURCES

Agnieszka, Leszczynska (2012) "Towards shareholders' value: an analysis of sustainability reports," Industrial Management & Data Systems, Vol. 112 Iss: 6, pp.911 – 928. Bingley, United Kingdom. Emerald Group Publishing Limited.

American Institute of Certified Public Accountants (AICPA) (2013). AICPA Applauds IIRC for Release of International Integrated Reporting Framework Draft. Retrieved from: <http://www.aicpa.org/press/pressreleases/2013/pages/aicpa-applauds-iirc-for-release-of-international-integrated-reporting-framework-draft.aspx>

Bakker, P. (2013). Accountants Will Save the World. Harvard Business Review Blog Network. Retrieved from: < http://blogs.hbr.org/cs/2013/03/accountants_will_save_the_worl.html>

Ballou, B., Heitger, Dan L., Landes, Charles E. (2013). "Accounting for the Sustainability Cycle:

How the Accounting Profession Can Add Value to Sustainability-Oriented Activities". AICPA Financial Reporting Center Publication, October 2013. Retrieved from: < http://www.aicpa.org/InterestAreas/FRC/AssuranceAdvisoryServices/DownloadableDocuments/Sustainability/Whitepaper_Accounting_for_the_Sustainability_Cycle.pdf>

Casey R., Ballou, B., Grenier R. J. & Dan L. (2012). Exploring the Strategic Integration of Sustainability Initiatives: Opportunities for Accounting Research. Accounting Horizons. 26(2), 265-288.

Eccles, Robert G. & Krzus, Michael P. (2010), One Report, Integrated Reporting for a Sustainable Strategy. Hoboken New Jersey. John Wiley & Sons, Inc.

Ernst & Young & Green Biz Group (2011). Six Growing Trends in Sustainability – An Ernst & Young Survey in Cooperating With Green Biz Group. Retrieved from: <http://www.ey.com/Publication/vwLUAssets/Six_growing/$FILE/SixTrends.pdf>

KPMG International (2013), the KPMG Survey of Corporate Responsibility Reporting 2013. Retrieved from: <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporateresponsibility/Documents/kpmg-survey-of-corporate-responsibility-reporting-2013.pdf>

Lukomnik, Jon & DeSimone, Peter, 2013. "Integrated Financial and Sustainability Reporting in the United States" published by the Investor Responsibility Research Center Institute. Retrieved from: <http://irrcinstitute.org/wp-content/uploads/2015/09/FINAL_Integrated_Financial_Sustain_Reporting_April_20131.pdf

Nieland, K. & Paul B. (2014). "Sustainability reporting Is it time for US companies to consider this growing trend?" Point of View, June 2014. Delaware, United States. PricewaterhouseCoopers LLP. Retrieved from: < https://www.pwc.com/us/en/cfodirect/assets/pdf/point-of-view-sustainability-reporting.pdf>

Prince of Wales (2013). The Prince's Accounting for Sustainability Project. Current Activities. Retrieved from: <http://www.accountingforsustainability.org/about-us/current-activities.>

Reinecke, Juliane (2012). "The Emergence of a Standards Market: Multiplicity of Sustainability Standards." Organization Studies, 33 (5/6), pp. 789-812, 2012

Ward, Halina & Ha, Mai-Lan (2012). "Voluntary Social and Environmental Standards and Public Governance: Reviewing the Evidence and setting Principles for Standards-setters." Report published by Democracy and Sustainable Development. Retrieved from: < http://www.fdsd.org/site/wp-content/uploads/2014/11/pacinst-standards-and-public-governance-review-nov-2012.pdf>

