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THE MOTIVATIONS FOR ADOPTING SUSTAINABILITY DISCLOSURE

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THE MOTIVATIONS FOR ADOPTING SUSTAINABILITY DISCLOSURE

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ABSTRACT

The aim of this paper is to explore the literature regarding sustainability and extended reporting frameworks, to catalogue various typologies of reporting frameworks, to investigate the motivation by organisations to adopt such frameworks, and to identify the extent of their use in Australia.

We start by defining corporate social responsibility (CSR) and sustainability and provide a brief overview of the historical development of the concepts of sustainability. Key to this is understanding stakeholders and their importance as a motivator for organisations to adopt sustainability reporting frameworks.

We outline the background to the development of new reporting frameworks by examining the academic literature in the area of sustainability research. We identify and catalogue 11 new reporting and social accounting guidelines, and focus on the development of one particular framework, the Global Reporting Initiative (GRI), and investigate the extent of its use in Australia.

We find the motivation for adopters of sustainability reporting frameworks is to attempt to communicate with their stakeholders the performance of management in achieving long-run corporate benefits, such as improved financial performance, increased competitive advantage, profit maximisation, and the long-term success of the firm.

Keywords: *corporate social responsibility, sustainability, GRI, disclosure frameworks*

INTRODUCTION

This paper has six key sections. Section 1 starts by defining *corporate social responsibility (CSR)* and *sustainability* and adopting the view that these terms have similar meanings and are often used interchangeably to mean the same thing.

Section 2 outlines a brief overview of the historical development of the concepts of sustainability, which will lead into an analysis of the five major frameworks covered in the literature: (1) agency view; (2) corporate social performance view; (3) resource-based view; (4) supply and demand view; and (5) the stakeholder view, which is the dominant view.

Section 3 looks at understanding stakeholders and their importance in sustainability, provides some observations about sustainability frameworks, and importantly the motivations of companies for increased disclosure with their stakeholders.

Section 4 briefly outlines the background to the development of new reporting frameworks and catalogues several new reporting and social accounting guidelines, which have been developed to facilitate sustainability disclosure.

Section 5 focuses on the development of one particular framework, the Global Reporting Initiative (GRI), and Section 6 catalogues the Australian organisations that have voluntarily adopted the GRI framework for their sustainability disclosure.

Finally, we conclude by summarising the findings of this paper.

1. CORPORATE SOCIAL RESPONSIBILITY & SUSTAINABILITY

Corporate Social Responsibility (CSR) is defined as operating a business on a reliable, sustainable and desirable basis that respects ethical values, people, communities and the environment (Anderson, 1989). The focus on this definition suggests a short-run view focusing the attention of the company on current issues.

There are four constituent components (RepuTex, 2003) that together influence an organisation's ability to be socially responsible: (1) environmental impact; (2) corporate governance; (3) social impact; and (4) workplace practices.

Consistent with the definition that has been adopted in this paper, the terms CSR and sustainability are used interchangeably to mean the same thing (eg Caswell, 2004). This is because CSR is a sub-set of sustainability (see Figure 1 below).

For any organisation to be sustainable in the long term, it firstly needs to be financially self-sufficient. Once this primary need for financial capital has been met, the organisation then needs to be socially responsible. This is achieved by ensuring that its governance and workplace practices and its environmental and social impact are self-monitoring and conform to society's expectations and ethical values. Only then can a company achieve sustainability in the long term.

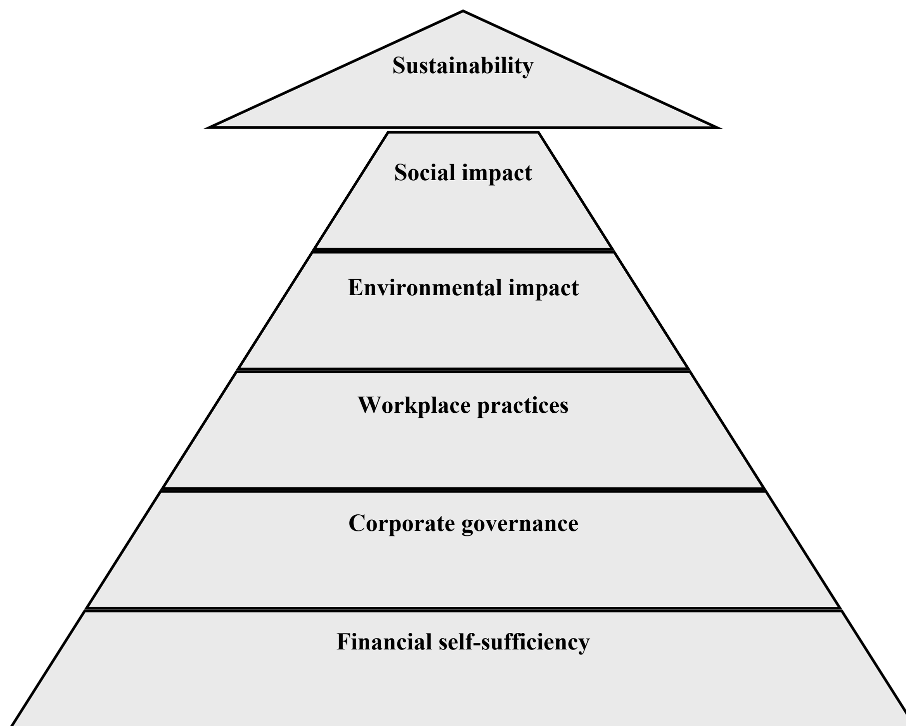

Figure 1: Relationship between sustainability and financial self-sufficiency

In Section 2 below, we will look at the historical development of these concepts and a review of the literature.

2. HISTORICAL DEVELOPMENT OF SUSTAINABILITY

The concept of social responsibility, or social responsiveness, is an evolving concept (Mays Report, 2003, p.12) and means different things to different stakeholders (Arlow & Gannon, 1982). However, the concept of social responsibility has been with us since the beginning of mankind (Anderson, 1989).

A comprehensive approach to Western contemporary social responsibility came in 1953 with the publication of Howard R Bowen's book, *Social Responsibilities of the Businessman*. Here, Bowen described the social responsibility of the businessman as "the obligation of businessmen to pursue policies, to make those decisions, or to follow

those lines of action that are desirable in terms of objectives and values in our society" (Bowen, 1953, p.6).

The CED (1971) used the term "social contract" to define the relationship between business and society with business's major obligation being the provision of goods and services for the benefit of society.

A significant amount of research has been undertaken over the past decades in understanding the nature of and motives for corporate social responsibility (e.g. Anderson, 1989; Arlow & Gannon, 1982; Carroll, 1979; Clarkson, 1995; McWilliams & Siegel, 2001; Pava & Krausz, 1996; Waddock & Graves, 1997; Wood, 1991) Increasingly, the importance placed on corporate social responsibility by investors, analysts, commentators and academics has grown, indicating a shift in attitudes.

This shift in attitude started with the agency view, which is the first framework identified in the literature. The next framework in the literature is the corporate social performance (CSP) view, followed by the resource-based view (RBV), the supply and demand view, and finally the stakeholder view is identified.

The agency view

Initially, the idea that a corporation was using shareholders' funds to engage in social projects was criticised (Gelb & Stawser, 2001, p. 3).

Freidman (1962, 1970) is generally credited with the "agency view" of the corporation and its responsibility to society. Freidman, recipient of the 1976 Nobel Memorial Prize for economic science, proposed that engaging in CSR is symptomatic of an agency problem or a conflict between the interests of managers and shareholders. Freidman argues that managers use CSR as a means to further their own social, political or career agendas at the expense of shareholders (McWillams & Siegel, 2001, p. 118).

According to Freidman's agency view, the business entity is accountable only to its shareholders and its sole social responsibility is to maximise the value of the firm (Gelb

& Stawser, 2001, p. 3). To paraphrase from *Capitalism and Freedom* (Freidman, 1962, pp. 133-135):

> "The view has been gaining widespread acceptance that corporate officials and labour leaders have a 'social responsibility' that goes beyond serving the interest of their stockholders and their members … few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible. This is a fundamentally subversive doctrine…the claim that business should contribute to the support of charitable activities…is an inappropriate use of corporate funds in a free enterprise society."

The agency view started to lose favour in the literature as the corporate social performance view gained attention in the 1980s.

The corporate social performance (CSP) view

Early research by Preston (1978) and Carroll (1979) outlined a "corporate social performance" (CSP) framework, which includes the philosophy of social responsiveness, the social issues involved, and the social and economic responsibilities. Waddcock and Graves (1997) empirically tested the CSP model and reported a positive association between CSP and financial performance (McWillams & Siegel, 2001, p. 118). Researchers such as Pava and Krausz (1996) hypothesised that, according to the agency view, greater levels of CSR would lead to reduced levels of financial performance. Their findings persistently showed the opposite: that firms perceived as socially responsible performed as well as or better than their counterparts that do not engage in costly social activities. The authors concluded that "sometimes a conscious pursuit of corporate social responsibility goals causes better financial performance" (Pava and Krausz, 1996, p. 333).

Building upon Preston & Carroll's framework, another view, the resource-based view (RBV) argues that CSP not only improves financial performance but it also adds a competitive advantage to the firm.

Resource-based view (RBV)

Another framework has been developed by Russo and Fouts (1997). They examined CSR from a "resource-based view" (RBV) of the firm perspective. Using this framework, they argue that CSP (especially environmental performance) can constitute a competitive advantage, especially in high-growth industries.

Using the RBV framework as a foundation, the next framework, the supply and demand view, introduced the notion of optimising sustainability investment.

Supply and demand view

McWillams & Siegel (2001) developed a 'supply and demand' framework and proposed that there is a level of CSR investment that maximises profit, while also satisfying stakeholder demand for CSR. While focusing on the level of CSR investment is seen as important to maximise profits, the literature favours stakeholders as the primary focus.

Stakeholder view

A widely used framework for examining CSR is the "stakeholder" perspective. Developed by Freeman (1984), the stakeholder theory asserts that firms have relationships with many constituent groups and that these stakeholders both affect and are affected by the actions of the firm. Freeman (1984) argued that systematic attention to stakeholder interest is critical to firm success and management must pursue actions that are optimal for a broad class of stakeholders, rather than those that serve only to maximise shareholder interests (Gelb & Stawser, 2001, p. 3).

3. UNDERSTANDING STAKEHOLDERS

Freeman (1984, pp. 46) defines a stakeholder as *"…any group or individual who can affect or is affected by the achievements of an organisation's objectives"*. This definition is still widely acknowledged as the landmark position in stakeholder theory

(Wood, 1991; Clarkson, 1995; Vos, 2003). The distinction between those who "can affect" (ie the involved) and those who "are affected" (ie the affected) is considered crucial in understanding and defining stakeholders. The involved have the possibility to directly influence the actions of the firm, while the affected do not have any influence over the actions of the firm.

From the firm's perspective, stakeholder identification is not easily solved, because it comprises, at least, a modelling and a normative issue (Vos, 2003, p.141). The modelling issue refers to identification issues for management, such as "who are our stakeholders?" and "to what extent can we distinguish between stakeholders and non-stakeholders?". The normative issue refers to managerial implication, such as "what stakeholders will we take into account?" or "to what stakeholders are we willing to listen?". Vos (2003) argues that to identify stakeholders, both the modelling and the normative issue need to be resolved.

Mitchell *et al*. (1997) stresses the importance of risk in identifying stakeholders and points out that without risk, there is no *stake* (a stake in this sense is something that can be lost). As such, a stakeholder is a risk-bearer and from this perspective, the distinction can be made between voluntary and involuntary stakeholders. Voluntary stakeholders bear some form of risk as a result of having invested some form of capital (human or financial) or something of value in the firm. Involuntary stakeholders are placed at risk as a result of the firm's activities (Mitchell, *et al*, 1997).

The dominance of the shareholder among all stakeholders is consistent with Freidman's (1962, 1970) agency view, which largely is seen as untenable in the context of CSR. There is no denying that shareholders deserve their special position as voluntary stakeholders because of the property rights they enjoy with the organisation, and the fiduciary duty (which is based on trust) between management and the shareholders. However, the organisation should acknowledge that it also owes a moral obligation to all non-shareholder stakeholders (including involuntary stakeholders) where the freedom and well-being of stakeholders are affected by the organisation's activities (Goodpaster, 1998).

Donaldson and Preston (1995) refined the stakeholder paradigm by arguing that three aspects of this theory – normative, descriptive/empirical and instrumental – are "mutually supportive". Jones and Wicks (1999) propose converging the instrumental (social science) and normative (ethics) components of stakeholder theory to arrive at a normative theory that describes how managers can create morally sound approaches to business and make them work (Jones and Wicks, 1999, p. 206). For more recent developments in stakeholder theory, see Gelb & Stawser (2001).

To a certain extent, the management of CSR has become stakeholder management (Donaldson & Preston, 1995). In dealing with stakeholder identification and management, there are two generally accepted positions: the firm-centred or instrumental perspective; and the system-centred or social responsibility framework (Vos, 2003, p. 144).

The firm-centred or instrumental perspective (Vos, 2003) is where the organisation identifies all its stakeholders for firm-centred purposes, such as economic prosperity, risk management, economic dependency, brand and image building. In general, these are the "involved" stakeholders who can potentially affect the organisation's achievements.

Using stakeholder theory as a dominant paradigm, CSR may be defined as *"the obligation to a specific system of stakeholders to carry out actions that appear to further some social good, beyond the interest of the firm and that which is required by law to do"* (Vos, 2003; McWillams & Siegel, 2001).

CSR means going beyond obeying the law; merely abiding by the law does not necessarily constitute a CSR activity. Some examples of CSR actions include going beyond legal requirements in adopting progressive human resource management programs, developing non-animal testing procedures, recycling, abating pollution, supporting local businesses, and embodying products with social attributes or characteristics such as product or process innovation" (McWillams & Siegel, 2001, p. 117).

Over the past few decades, the attitudes of some companies have changed, rejecting the agency view (Freidman, 1962, 1970), and instead embracing stakeholders (Freeman, 1984) and sustainability concepts in their business practice.

This has been motivated by a belief that adopting sustainability practices in the long run will lead to the improved financial performance of the firm (McWilliams & Siegel, 2001; Pava & Krausz, 1996), increased competitive advantage (Russo & Fouts, 1997), profit maximisation (McWilliams & Siegel, 2001) and the long-term success of the firm (Freeman, 1984).

To achieve these goals, companies need to demonstrate to their stakeholders that they are meeting or exceeding those stakeholders' expectations of performance in the area of sustainability. To facilitate this, companies have adopted new reporting and disclosure frameworks to help them communicate with their stakeholders. This will be the focus of the next sections.

4. THE INTRODUCTION OF NEW REPORTING FRAMEWORKS

Traditional accounting has long been criticised for providing an incomplete account of business. It fails to present the dynamics of business-value-creating activities and how politico-socio factors may affect or be affected by business-value-creating-activities. This is evidenced by increasing research in intellectual capital reporting (ICR) and corporate social responsibility reporting (CSR) and the introduction of new disclosure frameworks.

From the perspective of the CSR research, the traditional financial accounting framework is too narrow (Guthrie & Parker, 1993). The business income concept needs to be expanded (Bedford, 1965) because economic performance is not an index of total welfare (Bedford, 1965; Pigou, 1938). Since business activities have both economic and social impacts (Estes, 1976), businesses must meet societal expectations of both profit generation and contributions to the quality of life in general. This is also consistent with the concept of social contract of the legitimacy theory (CED, 1971).

A plethora of alternative reporting methods have been proposed in the sustainability literature (see Table 1 below), however, there is no universally accepted framework.

1	The Balanced Scorecard *The Balanced Scorecard: Translating Strategy into Action* (1996; based on a 1992 article) – Professor Robert S. Kaplan and David P. Norton
2	The Jenkins Report *Improving Business Reporting – A Customer Focus* (1994) – American Institute of Certified Public Accountants
3	Tomorrow's Company *Tomorrow's Company: The Role of Business in a Changing World* (1995) – Royal Society of Arts and *Sooner, Sharper, Simpler: A Lean Vision of an Inclusive Annual Report* (1998) – Centre for Tomorrow's Company
4	The 21st Century Annual Report *The 21st Century Annual Report/Prototype plc* (1998) and *Performance Reporting in the Digital Age* (1998) – both ICAEW
5	The Inevitable Change *Business Reporting: The Inevitable Change?* (1999) – ICAS
6	Inside Out *Inside Out: Reporting on Shareholder Value* (1999) – ICAEW
7	Value Dynamics *Cracking the Value Code: How Successful Businesses are Creating Wealth in the New Economy* (2000) – Arthur Andersen
8	GRI *Sustainability Reporting Guidelines* (2000; revised 2002) – Global Reporting Initiative
9	The Brookings Institution *Unseen Wealth: Report of the Brookings Task Force on Understanding Intangible Sources of Value* (2001) and Professor Baruch Lev's *Intangibles: Management, Measurement, and Reporting* (2001) – both Brookings Institution
10	ValueReporting *The ValueReporting Revolution: Moving Beyond the Earnings Game* (2001) and *Building Public Trust: The Future of Corporate Reporting* (2002) – both PricewaterhouseCoopers
11	The Hermes Principles *The Hermes Principles: What Shareholders Expect of Public Companies – and What Companies Should Expect of Their Investors* (2002) – Hermes Pensions Management Limited

Table 1: New reporting frameworks (Source: ICAEW, 2004, p. 9)

The idea to combine extended reporting frameworks with the traditional financial accounting framework has recently attracted a great deal of attention. One example of this synergy is the triple bottom line reporting approach (TBL).

TBL, a term coined by Elkington (1997), focuses corporations *"not just on the economic value they add, but also on the environmental and social value they add – and destroy"*. The idea is rooted in the concept and goal of sustainable development, which is defined as "development that meets the needs of the present world without compromising the ability of future generations to meet their own needs" (WCED, 1987).

As Deegan (1999) indicated, *"for an organisation or community to be sustainable (a long-run perspective), it must be financially secured (as evidenced through such measures as profitability), it must minimise (or ideally eliminate) its negative environmental impact, and it must act in conformity with society's expectations"*. That is, it is inadequate to measure and present only economic performance, which is the focus of the intellectual capital (IC) research. To be sustained in the long run, organisations must strive to achieve better performance across the three dimensions of TBL.

An alternative is the codification of guidelines such as the Global Reporting Initiative 2002 guidelines, which is an initiative that is heading towards a common and acceptable reporting framework aiming to combine the reporting of financial, environmental and social performance within the same format (Environment Australia, 2000). In addition, as stated in GRI (2002), the initiative has enjoyed the active support and engagement of representatives of key constituencies, and in the GRI's view, its guidelines provide the most updated consensus on a reporting framework at this point.

5. TRIPLE BOTTOM LINE AND DEVELOPMENT OF THE GLOBAL REPORTING INITIATIVE

The publication of *Cannibals With Forks* (Elkington, 1997) focused the business community on the links between environmental, economic and social concerns that had been highlighted previously in the Brundtland Report (WCED, 1987). Elkington coined the term triple bottom line and has convinced many leading companies to embrace sustainability using his triple bottom line theory. The Global Reporting Initiative (GRI) builds upon the foundations of triple bottom line to provide a framework for reporting and social accounting.

The Coalition for Environmentally Responsible Economies originally launched the GRI in 1997. The GRI is a voluntary set of guidelines for reporting on the economic, environmental and social aspects of an organisation's activities.

The GRI was established with the goal of enhancing the quality, rigour and utility of sustainability reporting. The initiative has enjoyed the active support and engagement of representatives from business, non-government organisations, accounting bodies, investor organisations and trade unions. Together, these different constituencies have worked to build a consensus around a set of reporting guidelines with the objective of obtaining worldwide acceptance (Fowler, 2002).

The sustainability reporting guidelines are a framework for reporting on economic, environmental and social performance. They (a) outline reporting principles and content to help prepare organisation-level sustainability reports; (b) help organisations gain a balanced picture of their economic, environmental and social performance; (c) promote comparability of sustainability reports; (d) support benchmarking and assessment of sustainability performance; and (e) serve as a key tool in the overall process of stakeholders' engagement.

Sometimes referred to as triple bottom line reporting, the term sustainability reporting is used throughout the GRI guidelines.

The guidelines can be used simply as an informal reference document to assist organisations in developing a framework and indicators for measurement and reporting in an environmental fashion. Alternatively, the organisation may choose to adopt them and prepare their report 'in accordance' with the guidelines.

The GRI recognises the complexity of implementing a sustainability reporting program and the need for many organisations to build their reporting capacity in an incremental fashion. Such organisations may choose not to prepare a complete GRI-based report in their initial effort. Instead, they may choose a step-by-step approach to adopting the guidelines over a period of time.

Increasingly, these voluntary guidelines are being adopted by companies worldwide, providing a common framework for sustainability reporting. This increasing trend with global companies can also be seen in the increased application of GRI among Australian organisations.

6. AUSTRALIAN APPLICATION OF GRI

A number of companies around the world have released reports indicating that they have referred to and followed the guidelines in preparing their disclosure reports. These include 38 Australian organisations, which along with their sector, are listed in Table 2 below:

ORGANISATION	SECTOR
Forests NSW	Agriculture
Ford Australia - Broadmeadows Assembly Plant	Automotive
Ford Geelong Assembly Plant	Automotive
Thiess	Conglomerates
Landcom	Construction
QCL Group	Construction materials
Australian Gas Light Company (AGL)	Energy
Origin Energy	Energy
Yallourn Energy	Energy
Energex Limited	Energy utilities
Integral Energy	Energy utilities
Loy Yang Power	Energy utilities
Tarong Energy	Energy utilities
Australian Ethical Investment	Financial services
Insurance Australia Group	Financial services
National Australia Bank	Financial services
VicSuper Pty Ltd	Financial services
Westpac Banking Corporation	Financial services
Visy Industries	Forest and Paper products
Port of Brisbane Corporation	Logistics
Anglo Coal Australia (Anglo American)	Mining
Argyle Diamonds	Mining
BHP Billiton	Mining
MIM Holdings	Mining
Newcrest Mining	Mining
Ports Corporation of Queensland	Mining
Western Mining Corporation Resource Ltd (WMC)	Mining
Landcare Australia	Non-Profit/Services
AMCOR	Other
Department of Family & Community Services (FaCS)	Public Agency
Department of the Environment and Heritage (DEH)	Public Agency
Singtel Optus	Telecommunications
Telstra	Telecommunications
British American Tobacco Australia	Tobacco
City West Water	Water utilities
Grampians Wimmera Mallee Water	Water utilities
Sydney Water	Water utilities
The Water Corporation	Water utilities

Table 2. 38 Australian GRI reporters (Source: www.globalreporting.org)

An analysis of this data shows that the utilities (water, energy and telecommunications), mining and financial services sectors are the most represented sectors in Australia, comprising 25 of the 38 Australian organisations adopting GRI reporting.

7. SUMMARY OF SUSTAINABILITY REPORTING FRAMEWORKS

There has been growing concern in academic literature that the traditional financial disclosure framework by organisations is insufficient because: (a) it has failed to adapt to the changing nature of business; (b) that it no longer meets the changing needs of investors; and (c) that it fails to recognise a wide enough circle of users (ICAEW, 2004, p.6). In attempting to satisfy this deficiency in traditional reporting, several new alternative sustainability reporting frameworks have been developed, however there is no universally accepted framework that allows universal comparison of sustainability performance. In the absence of legislative prescription, organisations have been adopting these new disclosure frameworks on a voluntary basis only. One of the frameworks that is being adopted globally, as well as in Australia, is the GRI.

CONCLUSION

Over the past few decades, the attitudes of some companies have changed, rejecting the agency view (Freidman, 1962, 1970), and instead embracing stakeholders (Freeman, 1984) and sustainability concepts in their business practice.

With a new-found focus on disclosure to stakeholders, there has been growing concern in the academic literature that the traditional financial disclosure framework by organisations is insufficient because: (a) it has failed to adapt to the changing nature of business; (b) that it no longer meets the changing needs of investors; and (c) that it fails to recognise a wide enough circle of users (ICAEW, 2004, p.6).

In attempting to satisfy this deficiency in traditional reporting, several new alternative sustainability reporting frameworks have been developed, but there is no universally accepted framework that allows universal comparison of sustainability performance.

In the absence of legislative prescription, organisations have been adopting these new disclosure frameworks on a voluntary basis only to help them communicate with their stakeholders. One of the frameworks that is being adopted globally, as well as in Australia, is the Global Reporting Initiative (GRI). Currently, 38 Australian organisations have adopted GRI reporting. These leading companies are demonstrating to their stakeholders that they are meeting or exceeding those stakeholders' expectations of performance in the area of sustainability.

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