Editorial – Sustainability Reporting: Information for whom?

Katrin Hummel (*University of Zurich*)
Giovanna Michelon (*University of Bristol*)
Stephanie Mittelbach-Hoermanseder (*WU Vienna*)

Since the 2015 Paris Agreement on Climate Change which aims at limiting the rise in global temperature by well below 2 degrees Celsius compared to pre-industrial levels, the pressure from both society and regulatory bodies to combat climate change has significantly increased. The "Fridays for Future" strikes, organized by school students who take the Friday off to demonstrate for more political actions to fight climate change, and the global presence of their initiator Greta Thunberg mark a turning point for the growing societal attention to the challenges of climate change. A similar cornerstone for the awareness of *social* issues are the adoption of the Sustainable Development Goals (SDGs) by the United Nations in 2015. The SDGs comprise 17 "comprehensive, far-reaching and people-centred" goals that the UN member states agreed on achieving by 2030 (United Nations General Assembly 2015, No. 2). They are interlinked and comprise all three dimensions of sustainability, namely the social, environmental and economic dimension. All nations – including developing and industrialized countries – are equally challenged to implement and achieve the goals, yet the SDGs are not binding under international or national law.

These societal and "soft" political developments are evidently accompanied by regulatory changes in many countries around the world – although we have to note a remarkable backlash in these developments in distinct countries such as the United States and Brazil under the current presidencies. For instance, in India, since 2014, firms above certain profitability, net worth and size thresholds are required to spend at least 2 % of their net income on corporate social responsibility (CSR) activities (Clause 135 of the Companies Act). These include, amongst others, activities for the eradication of hunger and poverty, the promotion of gender equality, the protection of the environment and the ecological balance, or the development of rural or slum areas. In Europe, the European Commission introduced in December 2019 the European Green Deal which is a set of policy actions that intend to make Europe climate neutral by 2050. With the COVID-19 pandemic spreading within the European Union over the last months, the European Union leaders agreed on a 750 billion EUR recovery package of which the European Green Deal forms an integral part of. Climate neutrality by 2050 is also the core claim of the Swiss "Glacier Initiative", a federal popular initiative that forces a modification of the Swiss constitution which will be on national vote within the next years. Another upcoming Swiss federal popular initiative ("Responsible Business Initiative") demands that companies are legally accountable for their impacts on human rights and the environment along the whole supply chain. The voting date is in November 2020. In Austria #mission2030 presents the roadmap of the Austrian Climate and Energy Strategy until 2030 aiming at reducing Austria's greenhouse gas emissions by 36 % until 2030 compared to 2005. The key areas of action are based on 8 tasks comprised amongst others of developing infrastructure for sustainable Austria, creating the necessary economic framework and mobilizing investment, shaping the legal framework for a climate-friendly Austria and using technology for decarbonization.

Along with these societal and regulatory developments on sustainability actions, sustainability disclosure has also evolved over the last decade, from a primarily voluntary practice of providing some information (often for legitimacy purposes) in the past to more comprehensive, balanced and objective reporting (often in accordance with certain reporting guidelines) in the present (Schneider et al., 2018). All stakeholders rely on the disclosure of sustainability information by firms to be able to assess the firms' underlying sustainability performance. In line with this development, there are a considerable number of voluntary reporting guidelines and mandatory reporting regulations on sustainability disclosure nowadays, each of them with specific purposes. Among voluntary reporting guidelines, the most prominent and comprehensive ones are provided by the Global Reporting Initiative (GRI), the International Integrated Reporting Committee (IIRC), the Sustainability Accounting Standards Board (SASB), the Task Force on Climate-Related Disclosure (TCFD) and the Climate Disclosure Standards Board (CDSB).

The GRI was founded in 1997 with the aim of developing a global sustainability reporting standard. In 2000, the GRI launched its first version of the reporting guidelines (G1). The current version, the GRI standards, were launched in 2016. Today, the GRI standards are the most applied sustainability reporting framework.[1] The GRI standards include both, reporting principles that are used by all firms applying GRI and topic-specific standards to report about concrete performance indicators concerning economic, environmental and social matters. Due to their modular structure, the GRI standards allow for flexibility instead of variety in the comprehensiveness of reporting. While the GRI standards have a broad stakeholder focus, both the integrated reporting <IR> framework and the SASB standards are more investor oriented. These two frameworks are more recent. The <IR> framework focuses on an integrated perspective for a firm's value creation and reporting thereby bringing together "material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates." (IIRC, 2011, p. 2) At the core of the SASB standards are detailed and industry-specific reporting standards that focus on financially material sustainability information (Eccles et al. 2012). More recently, the recommendations published by the Task Force on Climate-Related Financial Disclosure (TCFD) focus on enhancing the resilience of the financial system against risks arising from climate change and was initiated by the Financial Stability Board in late 2015. The TCFD framework builds on existing standards such as the GRI but focuses primarily on disclosure of climate-related financial risks and as such, the main addressees are investors, lenders and insurance underwriters. The TCFD centers around 11 recommendations concerning the four core elements of business organisations comprised of governance, strategy, risk management and metrics and targets. Aiming at reconciling the requirements on climate-related disclosure set out in various reporting guidelines, the CDSB Framework was launched in 2010 and updated in April 2018 to align with the recommendations of the TCFD. The Framework focuses on climate-related and environmental disclosure and provides guiding

1 In 2016, 75 percent of the 250 globally largest firms providing non-financial disclosure and 63 percent of the 100 nationally largest firms providing non-financial disclosure refer to the GRI reporting guidelines/standards for their sustainability disclosure (KPMG, 2017).

principles and reporting requirements that specify the type of environmental information to be reported in mainstream reports (CDSB, 2019).

In addition to these voluntary guidelines, over the past few years we have seen a proliferation of regulations on mandatory social and environmental reporting. While some countries have a relatively long tradition of sustainability disclosure regulations (e.g., France, Denmark or South Africa), others have only recently introduced sustainability reporting mandates. For instance, with the purpose of fostering "change towards a sustainable global economy" and to "enhance the consistency and comparability" of the disclosed sustainability information, the European Union passed a directive in April 2014 mandating the "disclosures of non-financial and diversity information" for large companies, with effect for financial years starting on 2017 (Directive 2014/95/EU). The directive obliges companies to include in their annual management report a non-financial statement on the impact of their "development, performance, position" and activities on "environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters". In June 2017, the European Commission has published non-binding guidelines that further specifies the directive. Further guidelines on the reporting of climate-related information were additionally published in June 2019. As it is the case for all EU directives, member states have to transpose the directive into national law. Both Austria and Germany have transposed the EU directive into national legislation without substantial adaptations.

Furthermore, sustainability disclosure is a listing rule at a number of stock exchanges.[2] For instance, in China the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) require listed firms to publicly disclose sustainability information beginning with the reporting year 2008 (Chen et al., 2018). Moreover, in 2016, the Hong Kong Stock Exchange made sustainability reporting compulsory for listed companies. It followed up in 2018 with even more stringent disclosure requirements. Also, in South Africa, under the King II Report, firms listed on the Johannesburg Stock Exchange are required to prepare integrated reports in order to present their financial and sustainability performance. In Switzerland, the Swiss Exchange (SIX) introduced the opportunity for listed firms, by means of an opting in, to inform the SIX about the publication of voluntary sustainability reports which are then published on the SIX website. If firms make use of this option, the sustainability report has to be prepared in accordance with an internationally recognized sustainability reporting standard[3] and published within a certain period of time.

However, despite these on-going development on regulation introducing mandatory sustainability disclosure in many jurisdictions, the distinction between the "mandatory" and "voluntary" nature of sustainability reporting remains blurry (Schneider et al., 2018), due – among other things – to the often vague wording of the regulations and low enforcement (Christensen et al., 2019). In addition, also in the context of financial reporting, reporting requirements typically leave managers with reporting discretion for various reasons (Leuz

2 The Sustainable Stock Exchanges (SSE) initiative provides a global platform for exploring how exchanges can foster sustainability and the achievements of the SDGs (https://sseinitiative.org/about/).

3 The following voluntary standards are recognized by the SIX: the GRI standards, the SASB standards, the UN Global Compact, and the European Public Real Estate Association Best Practices Recommendations on Sustainability Reporting.

and Wysocki, 2016). Also, sustainability disclosures generally are not subject to a mandatory audit, which is resulting in broader critics.

The resulting reporting practices are therefore shaped not only by reporting standards but also by firms' reporting incentives and their institutional environment (Ball et al., 2000; Ball et al., 2003). Therefore, sustainability disclosures today have increased dramatically compared to early days. These tremendous and still on-going changes have been our primary motivation to launch this call on "Sustainability Reporting: Information for Whom?". While the determinants of sustainability reporting have been extensively studied by accounting research (e.g. Hummel and Schlick, 2016; Fifka, 2013; Cho and Patten, 2007), we still know relatively little about the consequences of sustainability disclosure for different stakeholder groups, and how these stakeholders are involved in the process of producing sustainability reports. In this context, the main focus of existing research lies on the role of capital market participants as addressees of sustainability disclosure (e.g., Mittelbach-Hörmanseder et al., 2020; Cahan et al., 2016) while there is only little research examining other stakeholders, such as regulators, employees and customers, as well as the interplay between internal sustainability management organization and external sustainability reporting practices.

This Special Issue aims at closing some of these research gaps thereby providing new insights into sustainability reporting and exploring avenues for future research. The Special Issue includes two research papers, two articles from practitioners and one invited commentary.

The article "Water Sustainability in the Brewing Industry: A Stakeholder Based Approach" by Jonathan Morris provides in-depth insights into stakeholder pressures facing companies in the brewing industry with a particular focus on water sustainability. The article examines the relationships between firms' sustainability and sustainability disclosure and their stakeholders. The results reveal that regulatory pressures are not considered to be significant in shaping water sustainability practices, but on-going regulatory changes might result in more pressure in the future. The interviews also reveal both internal and external barriers that hinder sustainability developments, in particular a strong internal focus on cost savings. For the broader dimension of sustainability, the interviews reveal that the engagement with local communities is of particular importance for smaller breweries. Thus, continued dialogue between local stakeholders and brewing firms appears to be essential to ensure the long-term sustainability of the industry.

The article "Interne Ansätze zur Nachhaltigkeitsbewertung in der externen Berichterstattung – konzeptionelle und empirische Analyse der DAX-Unternehmen" by Wladislav Gawenko, Fanny Richter, Michael Hinz and Uwe Götze examines the relationship between internal sustainability assessment and management concepts – such as life cycle assessment or social footprint – and external sustainability disclosure. For that purpose, the authors examine (i) how the GRI standards account for the most common sustainability assessment and management concepts and (ii) how firms' external disclosures account for these concepts. The authors find only few overlaps between the GRI standards and internal sustainability management approaches, in particular with the concept of the carbon footprint and the social life cycle assessment. Regarding firms' external disclosure, the authors focus on firms listed in the German prime index (DAX) and the reporting year 2018. The empirical evidence reveals a low level of external reporting on internal sustainability management concepts among the sample firms thereby suggesting that the interaction between internal sustainability assessments and external sustainability reporting is currently rather limited.

The study on "reporting on climate-related risks and opportunities" by Birgit Haberl-Arkhurst and Andrea Sternisko provides descriptive evidence for climate-related disclosure among Austrian firms. Their results reveal severe shortcomings with respect to climate-related disclosure among their sample firms comprised of 39 ATX industrial and financial companies. The authors specifically point out the lack of focus and depth relating to the identification, management of as well as reporting on climate-related risks and opportunities. Centering their research around the TCFD recommendations, the authors reveal that only 2 sample firms reference the TCFD recommendations. Finally, they conclude, that more concrete guidance and harmonization for climate-related disclosure is needed in order to provide firms with distinct recommendations that would enhance the interpretation of the disclosed information and allow for comparisons between companies.

The article titled "The current state of nonfinancial reporting in Switzerland and beyond" by Roger Müller and Mark Veser presents broad descriptive evidence on non-financial reporting ranging from institutional investors' views about non-financial reporting and the adoption of the TCFD recommendation on a global scale to non-financial reporting of Switzerland's largest firms. With respect to institutional investors the results of the study reveal that nonfinancial information is indeed gaining importance, especially the related risks. However, the authors also point out the importance of the materiality assessment which has room for improvement on the firm side. Concerning the results of the TCDF recommendations for 500 companies, the evidence shows a picture similar to the one for Austria (Haberl-Arkust and Sternikso, 2020), confirming a general lack of quality of the analysed disclosure. On a more granular level, the authors also examined the quality of nonfinancial reporting for the 100 largest firms of Switzerland for 2017. Their results also provide evidence for an increased importance confirming that a majority of the sample firms published a sustainability report and the number of firms seeking external assurance is increasing, although still being only 30 %. Thus, the article, although providing evidence for the growing importance of nonfinancial reporting, also shows some weaknesses that provide room for improvements by regulators and standard setters.

"Climate change reporting: a commentary on key issues" by Gaia Melloni discusses the role of firms' efforts and performance regarding carbon emissions. Based on a systematic literature review on determinants of climate change related disclosure the author shows that recent literature identifies size, involvement in governance as well as emissions levels as the main determinants of climate change disclosure. More specifically, climate change disclosure is positively related to size and its relationship with GHG emissions is mixed. Among the most important challenges, the commentary identifies the integration in the corporate reporting practice as well as the assurance of climate change related disclosure. In addition, the article identifies important avenues for further research including research in the area of the distinction between adoption of climate change reporting and the quality of the disclosure as well as between quantitative and qualitative disclosure.

Taken together, the evidence provided in this Special Issue prominently demonstrates both the importance of and on-going changes in sustainability reporting and sets out avenues for further research. We thank all authors and reviewers for their valuable contributions to this Special Issue.

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