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Towards a new paradigm: Activity level balanced sustainability reporting

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A R T I C L E I N F O

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A B S T R A C T

Technoeconomic paradigms based economic growth theories suggest that waves of technological innovations drove the economic growth of advanced economies. Widespread economic degradation and pollution is an unintended consequence of such growth. Tackling environmental and social issues at firm levels would help us to overcome such issues at macro-levels. Consequently, the Triple Bottom Line (TBL) reporting approach promotes firm level economic, environmental and social performances. Incorporating Zink's (2014) 3-pillar presentation model, this paper indicates that economic, social and environmental performances tend to be reported at firm level. All three pillars are not covered evenly at the activity levels. Thus, a loophole is identified whereby excellent environmental performance at activity levels could potentially leave poor social performance undisclosed. A refinement of the TBL paradigm, whereby all three pillars are covered at the activity level, is suggested, to enhance sustainability reporting.

1. Introduction

According to technoeconomic paradigms (TEPs) based economic growth theories, waves of technological innovations that drove economic growth of advanced economies in recent centuries (Daniels, 2005; Göransson and Söderberg, 2005) inadvertently unleashed large scale pollution and environmental destruction. Left unaddressed, these externalities could render planet earth inhospitable to human life. Sustainable development, defined as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs' (United Nations, 1987), has emerged as a key to containing this widespread macro-level environmental damage.

These environmental issues could be addressed at micro-levels, where firms could degrade the environment in a pursuit of profits, neglecting various unrecorded negative externalities. Economic profits could be boosted by cutting back on investments on safety, health and general well-being of workers and the general community. Customarily, commercial firms have considered investors, creditors and other contributors of capital as their most important stakeholders. The accounting discipline has traditionally focused on producing formal financial statements that serve the needs of these providers of capital, reporting little, if any, information on externalities that impact the society at large (Hines, 1988; Baker and Bettner, 1997). Concerns regarding the limitations of this capitalist orientation led to calls for new holistic reporting frameworks that cover various externalities, including the firms' impact on the environment and social factors.

Elkington's (1997) Triple Bottom Line (TBL) reporting conceptualises the disclosure of firms' performances in economic, environmental and social arenas. The Global Reporting Initiative (GRI) proposes an extensive number of metrics that can be used to report the environmental and social performance of various organisations (www.globalreporting.org/Pages/default.aspx, accessed 14th March 2015). Ideally, such disclosures would expose firms' shortcomings in their environmental and social performances. These exposures would, in turn, compel firms to pay attention to their shortcomings. Ultimately, such moves would lead to improvements in the firms' economic and environmental performance. Currently, some firms release sustainability reports based on the GRI ideology.

Contemporary best practice in sustainability reporting is characterised by holistic firm-level reporting. However, such holistic coverage does not extend to the activity level. Firms could conceivably select a particular set of activities to report excellent environmental performance (e.g. firm wide recycling programmes) and a different set of activities to record superb social performance

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(e.g. excellent retirement benefits). Such reporting could theoretically belie poor human rights records. For instance, recycling of industrial waste involves the handling of hazardous waste and work postures that could lead to health issues. As such, the promotion of recycling activities should be associated with firm-level investments in recycling-linked safety training (including ergonomically safe work practices), staff with relevant certifications for establishing and enforcing staff safety protocols and recycling-specific protective gear. Disclosures regarding the success of recycling initiatives without related information on relevant staff health and safety issues limit the usefulness of such disclosures. In the worst case, such firm-level reporting could be meaningless, since there is no real optimisation in achieving sustainability in the human factor dimensions. This paper suggests that this limitation can be overcome by compelling holistic reporting of economic, environmental and social performance at the activity levels. A new paradigm that compels holistic reporting at the activity level would be able to enhance the effectiveness of sustainability reporting in addressing micro-level environmental and social issues.

2. Literature review

2.1. Technoeconomic paradigms (TEPs)

TEP based economic growth theories indicate that since the 1700s, technological innovations that enhanced productivity drove the economic growth of today's advanced economies (Freeman and Peréz, 1988; Grubler and Nowotny, 1990; Ayres, 1988). The macro-level pollution and environmental degradation resulting from these activities, however, have become an issue (Daniels, 2005). A firm's activities contribute to the negative externalities attributed to each firm. The firms' contributions to pollution, when summed up at the national level, constitute the macro-level environmental issues that are ascribed to TEP based economic growth models. Therefore, it would be possible to tackle the macro-level environmental issues by containing the environmental impacts at the firm level. Consequently, Triple Bottom Line (TBL) and Global Reporting Initiatives (GRI) movements address environmental and social issues at the firm level. The TBL and GRI are detailed below.

2.2. Environmental and social reporting: conceptualisation (TBL), reporting metrics (GRI) and practice (implementation)

Accountants have traditionally focused on reporting economic performance, covering revenues, costs, profits, assets and liabilities of firms. The information needs of capitalists, particularly investors, are emphasised. The International Accounting Standards Board (IASB) promulgates global accounting International Financial Reporting Standards (IFRSs). IASB's conceptual framework points out that the objective of financial reporting is to provide information that "is useful to existing and potential investors, lenders and other creditors …" in making resource allocation decisions (Ernst and Young, 2010).

Current IFRS regulations do not mandate disclosures regarding the costs of pollution and environmental degradation caused by firms' activities, which are ultimately borne by the wider society. Nevertheless, Mathews (1993) indicates that organisations must consider the impact of their activities on the wider community. Brady (2003) comments that social and environmental credibility are very important for large firms. Ernst and Young (2002, p.5), based on an interview of senior executives of the Global 1000 companies, conclude that "corporate …. environmental and social behaviour can have a material impact on business value".

Elkington's (1997) triple bottom line (TBL) philosophy conceptualises the reporting of economic, environmental and social performance of firms (Brown et al., 2006), offering an approach for addressing the social responsibility of corporations. Zink (2014) visualises a reporting presentation that pays explicit attention to all three dimensions and mentions that inter-dimensional impacts must also be considered. In practice, firms have voluntarily disclosed information pertaining to all three conceptual dimensions, in annual reports, stand alone documents and websites. Such social and environmental reports have grown in volume and complexity. In tandem with the "growth in stand-alone social and environmental reporting practices, initiatives to develop voluntary reporting standards to guide organizations in initiating and implementing these reporting practices (have) developed" (deVilliers et al., 2014, p.4). Global Reporting Initiative's (GRI) reporting standards are amongst the most widely used for reporting environmental and social performance of corporations (Buhr et al., 2014; deVilliers et al., 2014). The GRI standards provide a large number of metrics that firms could select to indicate firm specific environmental and social performance.

From an implementation perspective (that is, in terms of information that has been reported), firms have been criticised for applying GRI based standards in a non-integrated manner. For instance, in reporting firm level initiatives regarding worker safety (e.g. free medical checkups and vaccinations for staff), the firm might fail to disclose the specific costs incurred for this socially agreeable activity, which could shed light on the depth of the firm's commitment to its social responsibilities. Though GRI based reports "might have contained a wealth of information about a reporting organisation's social, environmental and economic impacts, practices and policies, because of the level of detail in the report" readers have difficulties connecting the related metrics to gain a complete insight of the organization performance (deVilliers et al., 2014, p.4).

Recent literature considers several corporate social reporting frameworks, including the balanced scorecard, TBL, sustainability reporting and integrated reporting (deVilliers et al., 2014). The balanced scorecard, originally conceived as a reporting tool for internal use of management within the firm (Kaplan and Norton, 1996), has had very little coverage within the scope of sustainability reporting, which is intended for stakeholders outside the firm. The current paper integrates the "balanced reporting" ideology, in that several dimensions must be considered simultaneously in an integrated fashion, within sustainability reporting operational and implementation frameworks. Various criticisms have emerged regarding the implementations of these operational frameworks in practice. These are discussed in the following section.

2.3. Criticisms of sustainability reporting

The criticisms of sustainability reporting can be broadly divided into the methodology argument (Tullberg, 2012), the isomorphism critique (Higgins and Larrinaga 2014) and the "corporate rhetoric problem" (Cooper and Owen, 2007).

With regards to the methodology argument, Tullberg (2012) indicates that sustainability reporting tends to suffer from the "incommensurability argument" when comparing two vastly different factors together. Tullberg gave the example of comparing or aggregating the positive effects of addressing water pollution with the increase in proportion of women employees. Firm-level reporting tends to be narrow in scope because aggregating the vastly different sustainability factors at the firm-level obscures the "true picture" of the organisation's sustainability (Jupe, 2007; O'Dwyer et al., 2005). In relation to the TBL approach, "businesses that start with a genuine commitment to enhancing their sustainability efforts can be distracted as the inter-relationships among the dimensions are masked by the apparent