



Sustainability performance disclosures: The case of independent power producers

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ARTICLE INFO

Article history:

Received 7 June 2011

Accepted 8 January 2012

Available online 18 February 2012

Keywords:

Sustainability performance

Sustainability disclosure

Greenhouse gas emission

Performance measurement

Independent power producers

ABSTRACT

Independent power producers (IPPs) investing across borders represent a crucial sector that produces an adverse impact on greenhouse gas emissions (GHG). The main purpose of this study is to articulate issues pertinent to sustainability performance among contemporary IPPs which seek funding from the capital markets. A framework employing a sustainability performance scorecard is developed based on an interdisciplinary literature review that spans the fields of corporate finance, financial reporting and sustainability. By examining the sustainability performance as disclosed by three cross-border IPPs from the U.S., Europe and the emerging economy of Asia, this comparative case study unveils the current weaknesses in comparability, relevance and usefulness in disclosures among the IPPs. It points out potential information asymmetry to decision making of the primary stakeholders who seek to invest in renewable and sustainable energy while countering short-termism over financial returns. A concerted policy effort on disclosures about sustainability performance would be crucial to channeling effective private investments into the development of renewable and sustainable energy.

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1. Introduction

Publicly listed enterprises have become aware of the need to do “good,” and many of them have perceived corporate social responsibilities as a means for them to improve their public relations. Critics are skeptical about their motives and actual performance in socially responsible matters. Because climate change has become an important cross-border environmental issue, independent electric power producers (IPPs) are under gradually increasing pressure from regulators and the public to demonstrate their commitment to limiting further greenhouse gas emissions (GHG).

In particular, there are studies indicating the critical role of corporate disclosures on sustainability and compliance with certain environmental standards, suggesting a possible influence of culture and behavior in the context of sustainability. Nonetheless, there are concerns about the completeness of disclosures under the current regulation that may neglect the externality and the true impact on the environment. This voluntary disclosure of firms operating in global capital markets would be subject to the need to balance short-term pressures on financial performance with the need to deal with investor relations. Disclosures could be utilized as a tool for the development of investor relations rather than for providing assurances about sustainability.

As it is neither customary nor practical for an auditor to give an opinion on the truth and fairness of a company's overall disclosures in its annual report, their relevance and reliability are particularly questionable, as suggested in previous studies. In light of the interdisciplinary issues involved, this article begins with a literature review related to sustainability performance and reporting and then explores the development of a scorecard for performance in terms of sustainability. With reference to the importance of the IPP sector to GHG as the world seeks to look into regulatory measures to deal with climate change, this article attempts to critically examine sustainability performance and reporting among three multinational IPPs. The implications concerning aligning long-term economic interests with sustainability performance are also explored.

2. Emerging issues on disclosure about sustainability

As there is increasing concern from the public over corporate social responsibility, corporations have become aware of the need to communicate their performance to stakeholders in terms of social responsibility. Especially when the public is concerned about the polluted environment and the issues associated with climate change, a number of corporations tend to “jump on the bandwagon” to promote their green features. For instance, Saha and Darnton [1] investigated the discrepancies between companies' publicized green strategies and what they actually practice in operations through case studies, finding that there was a significant gap between the environmental impact that they attempted to mitigate and the size of the environmental impact. It was noted that green practice was particularly inconsistent across international operations, whereas local issues, government legislation and stakeholder pressure were the driving forces behind their green initiatives [1].

In fact, the problem with voluntary reporting by companies on green and sustainability could be somewhat overstated in terms of their actual commitment. Such a drive for voluntary reporting could only be motivated by the desire to serve the key external stakeholders' requirements. As expressed by Buhr [2], “...waiting for voluntary reporting standards or the merits of peer pressure to raise bar for everyone is overly optimistic and naive... The general idea is that better disclosure equals more transparency which equals more accountability which equals better sustainability performance”. It was

unveiled that the current practice of reporting business information through Management Discussion and Analysis (MD&A), a report mandated by the regulatory body, might not guarantee the credibility and reliability of such information, as it could be embedded with materials created for the purpose of public relations [2].

To enable the comparison of sustainability accounting, there are initiatives by the regulators to develop compliance standards for corporations to report on sustainability issues. As explored by Adams and Narayanan [3], there have been a number of bodies from different countries to establish standards relating to sustainable development and environmental management systems. Nonetheless, multinational firms operating in a number of jurisdictions need to observe various local requirements and stakeholders' specific interests.

Adams and Narayanan [3] proposed that there could be sustainability issues in an industry that have not been addressed in a general guideline; the convergence of sustainability reporting guidelines would be unlikely unless there was a consensus about accountability for sustainability at the governance level. Concerning GHG emissions as a leading cause of global warming, Fornaro et al. [4] advocated the need to develop global accounting guidance to ensure consistency and transparency on reporting issues pertinent to GHG emissions, as there are emerging requirements by the U.S. government, EU countries and others to set a target level of emissions for companies. This so-called “cap-and-trade” program would create economic incentives for related regulatory compliance and reporting requirements.

With respect to the development of standards, Global Reporting Initiative (GRI), a network-based organization, initiated the development of a sustainability reporting framework and released its first version of the guidelines in 2000 [5]. GRI aims to continuously improve its guidelines and to promote their application worldwide.

3. The role of stakeholders and the capital market

3.1. Influence of primary stakeholders

External stakeholders have become critical about the need for corporations to deliver corporate social responsibility. As reviewed by Tilt [6], there are various groups of external stakeholders, including the primary stakeholders who are predominantly concerned about economic sustainability, such as shareholders and investment analysts who need information for making decisions, as well as secondary stakeholders, who are not directly engaged in transactions with a corporation. Primary stakeholders are concerned about improper environmental practices, as they could increase the liabilities and risks faced by the firm, which would, in turn, cause diminishing profits and financial losses in many cases. Pressures from other external stakeholders, such as financial institutions and customers, seem to arise for critical rather than moral reasons when such issues could affect a corporation's financial performance. Arguably there ought to be an underlying alignment between the economic value of sustainability and the primary stakeholders' long-term economic interests.

3.2. Problems with short-termism

Given the concerns over sustainability, has the market functioned effectively for the stakeholders' interests in the longer run? Some previous studies about the capital market have long indicated that the existing problems of financial short-termism that threaten long-term economic growth. For instance, Thakor [7] pointed out the problems with myopia in real investment decisions, which were distorted toward faster pay-off projects as a result of “preoccupation” with short-term profits. Porter [8] blamed the short-term

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