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Managing sustainability reporting: many ways to publish exemplary reports

Thomas Thijssens [a,*], Laury Bollen [b], Harold Hassink [b]

[a] Faculty of Management, Science and Technology, Open University of the Netherlands, PO Box 2960, 6401 DL Heerlen, The Netherlands
[b] Maastricht University, School of Business and Economics, PO Box 616, 6200 MD Maastricht, The Netherlands

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ABSTRACT

Sustainability reporting is a mostly voluntary activity that has gained great adherence in the corporate world. In examining the determinants of this activity research has focused on external company factors, providing mixed results. Hence, his study concentrates on internal factors by exploring how companies manage their sustainability reporting process. Using a qualitative research design we examine the internal factors that are associated with sustainability reporting of six Dutch companies with exemplary reports, as determined by two sustainability reporting benchmarking schemes. Additionally, the reports of the case companies are content analysed and their benchmark scores are scrutinised. Results demonstrate that, despite their top ranks in the schemes, the constellations of structures, systems and processes with which sustainability reporting is managed, varies across companies. Remarkably, for half of the sample companies sustainability (reporting) is not part of the day-to-day activities, but rather decoupled. Based on these findings, a typology of sustainability reporting is developed. The results also show that the quality assessment by the reporting schemes is inconsistent and that it is not possible to distil the reporting type from a company report. The results add to prior literature by giving insight into the internal factors underlying sustainability reporting, and how these factors interrelate. They imply that inclusion of internal organisational factors in sustainability reports will be valuable information to their users.

1. Introduction

Sustainability reporting is proliferating, both in terms of the number of companies engaging in this activity, and the comprehensiveness of the information included in the reports (Gray et al., 1995; Kolk, 2003; KPMG, 2013). Despite increasing government intervention, such as the recent EU Directive, which requires certain large companies to report on several sustainability matters (European Commission, 2014), sustainability reporting is still largely voluntary. As many academics are intrigued by companies' motives for engaging in this voluntary activity, sustainability reporting research is thriving.

Notwithstanding the rapid expansion of this research field, the theoretical debate is yet far from closure. Many theories are applied (for an overview of the literature, see e.g.: Gray et al., 1995; Hahn and Kühnen, 2013) and each of these theories is able to explain only a small part of the phenomenon (Adams, 2002). A potential reason for the lack of theoretical conformity is the fact that many empirical studies rely on factors, such as common company characteristics (i.e., size, industry or country), or public accounting figures (i.e., profitability, leverage, CO_2 emissions) (Adams, 2002; Hahn and Kühnen, 2013), which are broad in nature. It is questionable whether broad 'externally observable' factors accurately mirror the motives for engaging in sustainability reporting.

Hence, this study focuses on internal factors reflecting the way in which sustainability reporting is managed within a company. Such internal factors are more distinctive to a particular company than external factors and consequently are better able to illuminate the motives for sustainability reporting. In line with this the previous years have seen several calls for research on sustainability reporting from inside the company (e.g., Adams, 2002; Adams and Larrinaga-González, 2007; Hopwood, 2009). Though some have responded to these calls (e.g., Adams and Frost, 2008; Bebbington et al., 2009; Lodhia and Jacobs, 2013; Kaspersen and Johansen, 2014) these studies mainly focus on *what* factors influence

* Corresponding author. Tel.: +31 (0)45 5762659.
E-mail addresses: Thomas.thijssens@ou.nl (T. Thijssens), l.bollen@maastrichtuniversity.nl (L. Bollen), h.hassink@maastrichtuniversity.nl (H. Hassink).

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sustainability reporting instead of *how* sustainability reporting is internally managed.

The aim of this study is to distinguish the internal factors that are associated with sustainability reporting by exploring in detail how companies manage their sustainability reporting processes. Knowledge of these internal processes will benefit the sophistication of existing theories, and even the development of new theories. Apart from an academic need, an answer to this question will also be of practical interest. That is, the way in which information is developed, processed and ultimately published, provides a valuable context for the assessment of the quality of the information itself. Therefore, the processes, structures and systems with which sustainability reports have been published, provide relevant information for decision making by various stakeholders, such as governments, investors and the community.

In order to accomplish this aim, a two-stage research design is applied.

The first stage consists of semi-structured interviews with representatives of six large companies with exemplary reports in The Netherlands. Exemplary reporting in this study is specified by the application of a sustainability reporting framework (the Global Reporting Guidelines (G3) by the Global Reporting Initiative (GRI)), as well as the attainment of a top position in a sustainability reporting benchmarking scheme (the Transparency Benchmark (TB) of the Dutch Ministry of Economic Affairs). With the gathered data and the limited discussion from prior work, a typology of sustainability reporting management is developed. This typology is based on two crucial factors in the management of sustainability reporting, which emerge from our data analysis: the level of formalisation of sustainability reporting and the level of integration of sustainability reporting into the day-to-day sustainability management. The outcomes of this stage show that despite the heterogeneity in the management of sustainability reporting among the case companies, the perceived quality of the sustainability reports is comparable.

The second stage builds on the outcomes of the initial stage. The observation that, irrespective of the reporting management type, the sustainability reports have similar quality – as operationalised via the GRI and TB schemes-raises the following questions: What is actually disclosed in the reports? How is this information assessed by the two reporting schemes? Hence, the second stage consists of an analysis of the actual reports of the case companies, as well as a closer look at the assessment by the two reporting schemes.

The results from stage two show that none of the sustainability reports provides an accurate picture of the way in which the reports have been managed; only very few internal factors that were retrieved during the interviews could have been distilled from the reports in the corresponding years. It further shows that the GRI application levels and TB are rather inconsistent (for some companies positions show remarkable fluctuations over the years) and even contradictory (some of the highest levels of GRI application are associated with the lowest positions in the TB and vice versa).

The added value of this research is that it, next to presenting the internal factors underlying exemplary sustainability reporting, shows how these factors interrelate. More specifically, it shows the commonalities and differences regarding internal processes, systems and structures between companies, resulting in a typology of sustainability reporting management. Such provides important context for assessing the quality of the information in sustainability reports. The virtual absence of this information in the actual sustainability reports of the case companies may explain their inconsistent rank patterns in reporting benchmark schemes that were found.

The remainder of this paper is structured as follows. Section 2 gives an overview of the relevant literature. The third section describes the research method that was applied. Section 4 presents the empirical results along with a discussion. Finally, a conclusion is drawn, which also includes the implications, limitations and potentially interesting avenues for future research.

2. Literature review

The concepts of corporate social responsibility (CSR) and corporate sustainability have developed in parallel. Although they are conceptually different (see e.g.: van Marrewijk, 2003; Montiel, 2008), the constructs both refer to the business case for sustainability (see e.g.: Laine, 2005; Tredgidga and Milne, 2006) and consequently have converged over the years (Hahn and Kühnen, 2013). Nowadays, businesses use the terms interchangeably. In this study 'sustainability reporting' is preferred over 'CSR reporting' for pragmatic reasons. First, this term is used by the GRI, currently the most influential institution in the field. Second, it corresponds to the terminology used in this special issue. Nevertheless, for the specific descriptions of the case companies, we use the terms as used by the companies.

2.1. Sustainability reporting theory

Sustainability reporting theory is largely based on evidence from research on the determinants of this phenomenon. That is, in order to reveal managers' motives for engaging in this largely voluntary activity, existing empirical research typically focuses on the conditions under which companies engage in sustainability reporting. Most studies do this on the basis of a wide range[1] of externally observable company characteristics, which will be referred to as 'external factors'. The use of these external factors is motivated by prompt data availability, i.e.: their inclusion in public information sources.

Observed relations between sustainability reporting and external factors are explained from various theoretical points of view. Most prior literature uses one of the following theoretical explanations for publishing sustainability reports (see e.g.: Gray et al., 1995; Hahn and Kühnen, 2013): external pressures – as put forward by legitimacy and stakeholder theory – institutional forces – as proposed by institutional theory – or reduction of information asymmetry between management and investors in order to lower the costs of capital – as suggested by signalling and agency theory. There are two main reasons for this theoretical divergence. First, each of these theories is able to explain only a small part of the phenomenon (Adams, 2002). Second, it is doubtful whether broad external factors, such as company size or sector affiliation, accurately reflect the motives for engaging in sustainability reporting. To illustrate, the observation that larger companies have more extensive sustainability reports than smaller ones, can be explained from stakeholder-, legitimacy- and signalling theory. In short, external factors are not sufficiently unique to exclude alternative theoretical explanations.

Based on the previous, theory development in the sustainability reporting research field would benefit from research based on 'richer' company information, i.e.: data better capturing the distinctive (sustainability) characteristics of a particular company. This need can be provided for by empirical studies focussing on internal company characteristics. In this study we suggest that knowledge of the way in which sustainability reporting is managed

[1] A recent literature review in this journal shows that the factors that have consistently been found to be associated with sustainability reporting are: corporate visibility – as captured by the variables company size, media exposure and stakeholder pressure – and sector affiliation (Hahn and Kühnen, 2013).

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