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Sustainability inter-linkages in reporting vindicated: a study of European companies

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ABSTRACT

Recently, there has been a rapid growth in company sustainability reporting, as well as an improvement in quality of reports. A number of guidelines have been instrumental in this process; however, they still do not consider the importance of the inter-linkages and synergies among the different indicators and dimensions. This paper focuses on assessing sustainability inter-linkages in corporate sustainability reporting. For this study, the reports from fifty-three European companies, covering thirteen industries at A+ Global Reporting Initiative level and third party certified, were selected. These reports were analysed following a two prong, quasi-quantitative approach – firstly by checking which of the reports covered any of the inter-linking issues, and secondly by checking how well these were covered (*i.e.* the performance). The results showed that, although not explicitly demanded by the guidelines, the coverage of the interlinking issues ranged from medium to high, whilst performance ranged from low to high. Given the holistic nature of business and of sustainability, and the lack of inclusion of this in the current reporting guidelines, this paper calls for an update of the theory, and of the guidelines, to ensure that a more systemic approach is adopted in business praxis. It also makes an appeal to SR managers and champions, and those compiling the reports, to actively look for the inter-linking issues and dimensions, in order to gain new insights with a view to reducing, or even avoiding, conflicts between/among issues.

1. Introduction

Sustainability has become an important alternative to neoliberal economics, the dominant socio-economic paradigm, which tends to focus upon short-term profitability with little or no focus upon the long-term (IUCN, UNEP, & WWF, 1980; Reid, 1995; WCED, 1987) (Lozano, 2008). In general, there has been a bias towards considering sustainability only from an environmental perspective (e.g. Atkinson, 2000; Costanza, 1991; Rees, 2002; Reinhardt, 2000). Salzmann et al. (2003) indicated that this emphasis is due to social issues being less developed than environmental ones. This may be true within some sustainability discourses; nonetheless, many disciplines and societal groups have been addressing social and ethical dimensions for a long time. In many cases, sustainability has been perceived as being highly anthropocentric, compartmentalised, and lacking completeness and continuity (Lozano, 2008).

Although many sustainability categorisations can be found, Lozano (2008) presents one based on different perspectives, which includes the following types: (1) The conventional economists' perspective; (2) The non-environmental degradation perspective; (3) The integrational perspective, *i.e.* encompassing the economic, environmental, and social dimensions; (4) The inter-generational perspective, *i.e.* the fourth dimension of sustainability,[1] time; and (5) The holistic perspective, which combines the integrational and inter-generational perspectives through inter-connections between the dimensions. In some cases the boundaries between or among these perspectives may be blurred. This paper is based on the holistic perspective.

In this context, corporations and their leaders are increasingly recognising the relations and inter-dependences between the economic, environmental and social dimensions (C.E.C., 2001; Elkington, 2002; Schaltegger and Burrit, 2005; van Marrewijk,

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[1] According to Spangenberg (2002) the fourth dimension of sustainability is the institutional/governance one. However, for this paper institutional/governance and stakeholder participation are considered to be part of the social dimension.

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2003), as well as their effects in the short-, long- and longer-term (Langer and Schön, 2003; Lozano, 2008).

Some authors have proposed Corporate Sustainability (CS)[2] as a way to address these inter-dependences. For Dyllick and Hockerts (2002, p. 131) CS is: "…meeting the needs of a firm's direct and indirect stakeholders (such as shareholders, employees, clients, pressure groups, communities, etc.), without compromising its ability to meet the needs of future stakeholders as well". According to Siebenhuner and Arnold (2007) in order for a company to become more sustainability orientated, it should make changes that include the introduction of resource-efficient technologies, sustainability reporting schemes, and the provision of sustainable products, services, and product-service combinations. In addition to these, and to make *real* progress, CS should encompass a holistic perspective (Baumgartner and Ebner, 2010; Linnenluecke et al., 2009; Lozano, in press; Lozano and Huisingh, 2011). Moreover, it can be argued that CS is a journey for any company seeking to continuously adjust and improve their internal activities, structure, and management, to engage and empower stakeholders (including the environment), and to contribute to sustainable societies more effectively (Lozano, in press).

Lozano (2012) proposed a company system that encompasses the following elements: Operations and production; Management and strategy; Organisational systems; Procurement and marketing; and Assessment and communication. In any company (whether small, medium, or large) most of the elements interact as parts of the whole system (Bartelmus, 1999; GRI, 2006). This paper focuses on the Assessment and communication element.

The main purpose of this paper is to assess sustainability inter-linkages in corporate sustainability reporting. This is done by focussing on: providing a quasi-quantitative approach to identifying corporate sustainability GRI reports' contribution to inter-linking issues and dimensions; testing the feasibility of the proposed new dimensions; and assessing to what extent a holistic perspective was being taken. The paper first presents a brief discussion on sustainability reporting, followed by the methods and tool used for the analysis, then the results and discussion, and finally the conclusions.

2. Sustainability reporting

Sustainability Reporting (SR) is a voluntary activity with two general purposes: (1) to assess the current state of an organisation's economic, environmental and social dimensions, and (2) to communicate a company's efforts and Sustainability progress to their stakeholders (Dalal-Clayton and Bass, 2002; GRI, 2007; Hamann, 2003). It can be used for assessing sustainability performance over time, benchmarking against other companies, and demonstrating how the organisation influences, and is influenced by, expectations about sustainable development (Daub, 2007; GRI, 2011; Lozano, 2006a; Schaltegger and Wagner, 2006).

It can also serve as a base for planning changes for sustainability, for more details on planned changes refer to Bennis et al. (1969) and Benne and Birnbaum (1969), and more specifically for sustainability refer to Doppelt (2003) and Lozano (in press).

The number of companies, mainly trans-national corporations (ACCA, 2004; Ball et al., 2000), reporting on Sustainability has been growing (Andersson et al., 2005; GRI, 2007; Morhardt et al., 2002), particularly in Europe and Japan (Kolk, 2008). The KPMG surveys, of the largest 2200 companies in the world, showed an increase in reporting from 13% of these companies in 1993 to 41% in 2005 (KPMG, 2005). Similarly, the data from the Corporate Register (2008) (see Fig. 1) indicated an increase of global SR output from 26 in 1992 to approximately 3,011 in 2008. Fig. 2 shows the evolution from solely environmental reporting, to SR and Corporate Responsibility Reporting. In spite of an increasing number of companies producing SRs, the number of companies reporting is still insignificant compared with the total number of businesses operating in the world today.

SR has been increasingly recognised as an important element and driver of a corporation's contribution to sustainability (Cherp, 2003; Davis-Walling and Batterman, 1997; Lozano and Huisingh, 2011; Morhardt et al., 2002). As a growing number of company leaders and their employees are starting, and staying on, the SR learning journey, and on assessing sustainability performance (Daub, 2007; Schaltegger and Wagner, 2006), it is important, therefore, that companies measure, control, and assess their operations to better communicate and respond to their stakeholders (Perrini and Tencati, 2006).

According to Schaltegger and Wagner (2006), and then expanded by Burritt and Schaltegger (2010), there are two main paths for sustainability reporting: the critical theorist approach, which categorises SR as the cause and source of corporate sustainability problems; and, the management oriented approach, which sees SR as a tool to help managers deal with different and difficult decisions. Within the latter, it is possible to find two stratagems that drive sustainability reporting: "outside-in", focussing on the opinions and perceptions of stakeholders towards the organisation and, "inside-out", relating to the decisions taken inside the organisation in regards to social and environmental problems, which strengthen the competitive position of the organisation.

Schaltegger and Wagner (2006) also proposed an integrative approach to manage sustainability performance and economic performance more successfully by integrating the Sustainability Balanced Scorecard, sustainability accounting, and sustainability reporting. This approach links management, measurement, and reporting, However, it is theoretical and does not specify how to measure performance. Daub (2007) used a quasi-quantitative to analyse 25 Swiss companies' sustainability reports, this approach gives a more practical alternative assessment of quality and performance.

To help assess the current state of an organisation's sustainability, communicate it to stakeholders, and manage it, a large number of standards and guidelines have been developed during the last two decades (Lozano and Huisingh, 2011; Perrini and Tencati, 2006). Dalal-Clayton and Bass (2002), Cole (2003), and Lozano and Huisingh (2011) offered a comprehensive list of SR guidelines, noting their advantages and disadvantages. The most widely used guidelines include: the ISO 14000 series (especially ISO 14031 and 14063:2006) and EMAS; the Social Accountability 8000 standard (SAI, 2007); and, the GRI Sustainability Guidelines (GRI, 2002, 2006). The ISO 26000 (ISO, 2009) has potential to utilise the systematic approaches used in the ISO's series and apply them to Sustainability, but its implementation is still not widespread or fully appreciated.

A number of authors (e.g. Hussey et al., 2001; Lozano, 2006b; Morhardt et al., 2002) have indicated that the GRI guidelines are the best option available for SR. The GRI Guidelines are voluntary and intended to serve as a generally accepted framework for reporting on an organisation's economic, environmental, and social performance (GRI, 2011). The latest version, GRI G3, is designed to provide an overview of the extent to which the Guidelines have been applied in sustainability reporting. There are three major levels, (A, B, and C), with the option of being externally assured (denoted by a '+' sign after the level letter) (GRI, 2012).

[2] Several discussions have evolved on the role of CSR for companies to contribute to sustainability; however, CSR is limited by: too many definitions and interpretations (sometimes confusing and other times contradictory); being, in many cases, equated to philanthropy; and being perceived, usually, as referring only to the social dimension (Lozano, 2011).