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Mechanism

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Abstract. Sustainability reporting is now a mainstream activity among large, global corporations. The majority of the largest corporations in the United States now produce sustainability reports, and several European countries either mandate corporations to produce some form of sustainability reports or are in serious consideration of such legislation. Although leading standards such as the Global Reporting Initiative have made significant advancements in setting out the types of information that corporations should publicly disclose, mandatory sustainability reports will not work as an effective policy mechanism unless they are placed in a system that can effectively utilize the information and cause corporations to change their policies and practices. This brief essay provides an overview of the current sustainability reporting industry, and sets out some potential breakdown points and possible future developments.

The Future of Sustainability Reporting as a Regulatory Mechanism

Introduction

In discussions on how to encourage corporations to move towards practices and strategies consistent with sustainable economic development, a common mechanism mentioned is transparency. Often, this is the default approach, as it allows greater flexibility for both corporations and the government. Transparency initiatives work to encourage (or pressure) corporations that can do more to do more (as opposed to command-and-control regulation where all corporations are held to the same standard). In addition, the performance objectives are allowed to evolve over time, which works towards continuous improvement and each corporation advancing towards those goals at a pace that is reasonable for that corporation. Transparency initiatives also work to reduce the government's regulatory burden, as various stakeholder groups are empowered—through access to information—to hold corporations accountable for their performance and to push for improvement.

In the area of sustainable development, the primary transparency mechanism is the use of sustainability reports. These are disclosures by corporations on how they manage the various issues related to sustainable economic development and on metrics designed to show their actual performance over time. Over eighty percent of the Global Fortune 250 now publish sustainability reports. Although reports meeting the requirements of leading standards on sustainability reports are voluntary, an increasing number of countries are enacting legislation to require the disclosure on some of the metrics recommended by the most well-known reporting standards. For example, France, Denmark, and Sweden, all require some form of disclosure on social or environmental issues (United Nations Environment Programme et al, 2010).

Despite the growing use of sustainability reports and the increased attention they are receiving from policy makers, there is significant debate on whether or not they actually push corporations to meaningfully improve their performance on sustainability dimensions. At the time of this writing, Ioannou and Serafeim (2011) have published the only large-scale study to show that mandatory sustainability reporting causes corporations to adopt more environmentally and socially responsible practices and to improve on relevant performance measures. Of course, Ioannou and Serafeim's results will not satisfy the critics that argue that sustainability reports can never push corporations to radically rethink their operations (and even existence) and move towards sustainability in any meaningful way (Mitchell et al, 2012). Instead, sustainability reports can only operate within a "weak sustainability" vision, which "implies that capitalism may be restructured to cope with environmental problems without requiring a total transformation of the political-economic system." (Ihlen & Roper, forthcoming; see also, Luke, 2013).

Even if we accept that sustainability reports can only work to push corporations towards "weak sustainability," there is still significant doubt that current practices can make significant progress towards that goal. These critics argue that sustainability reports are not of use to those stakeholders that seek to hold corporations accountable for their actions. Instead, the incentives are for corporations to produce a "high volume and low quality of information," which stakeholders find difficult to assess in terms of veracity and completeness (Siebecker, 2009, p. 128). These concerns are consistent with the view by some that corporate social responsibility in general has been taken over by corporations as a managerial tool to manage risks and further marketing goals, as opposed to being responsive to stakeholder demands and incorporating sustainable development into company values and operations (Bondy et al,

2012). Mitchell et al (2012, p. 1062) state that “reporting can and has been used to capture and control sustainability discourses and to avoid or defer organizational change (maintain status quo).” In short, corporations dissemble by selectively and strategically disclosing information, directing stakeholder dialogues towards reputation and risk management goals rather than true stakeholder engagement, and decoupling the reporting process from the corporation’s strategic and operating decisions (Hess, 2008).

To attempt to correct the problem of dissembling, many have suggested making social reports mandatory. Although there has long been a debate over whether reports should be mandatory or not (Hess, 2007), the recent trend is towards mandatory reporting in some form. For example, a recent report states:

Instead of presenting mandatory and voluntary sustainability reporting as exclusive options, they are in fact highly complementary. Assuming a complementary relationship between mandatory and voluntary approaches, the challenge for governments then becomes to determine the appropriate minimum level of mandatory requirements. (United Nations Environment Programme et al, 2010: 8).

Overall, many questions remain over whether sustainability reports can meaningfully push corporations towards making their operations more sustainable, and therefore be an effective regulatory mechanism. In short, we are in one of three possible situations. One, current practices are on a trajectory where sustainability reports support “small wins” (Mitchell et al, 2012, p. 1063) in the short term, but will eventually lead to meaningful change over time. Two, “small wins” are the best that sustainability reports can deliver in changing corporate behavior. Three, corporations’ current practices work only work to enable corporations to manage risk and forestall any real progress towards change.

To understand the ability of sustainability reports to push corporations towards sustainable development in the long-term (scenario one above)—whether in the current primarily voluntary approach or with the increasing mandatory requirements—it is important to understand the system surrounding sustainability reports. The simple story of transparency initiatives is that disclosure by corporations will empower stakeholders to push for changes in corporate practices. However, there are a significant number of steps that need to occur before that simple story can be enacted, and a breakdown at any step can prevent meaningful change.

In their review of government regulation of individual and business behavior through transparency programs, Fung et al (2009) refer to an action cycle. This cycle involves the disclosure of information, the processing of that information by users which causes the users to develop perceptions of the discloser, the integration of that information into the users' decision-making process and resulting change in behavior, the disclosers' change in behavior in response to the users' actions, and then a new round of disclosure showing the disclosers' new behaviors. As applied to sustainability reports, this action cycle helps us see where breakdowns can occur. For example, the transition in the cycle from corporate disclosure to the processing of that information by users requires a suitable standard for sustainability reports for corporations to follow, complete disclosure against the indicators included in the standard, the assurance of the accuracy of the information contained in the reports, and the presentation of the information in a format that allows end users to understand and process the information. In our current system, this cycle is likely broken, as most of the evidence suggests that we have selective and misleading disclosures that are not adequately audited.

This chapter considers the sustainability reporting action cycle by examining the actors involved in making the cycle work. Through this examination, we can develop a better understanding of what policy interventions are needed to make sustainability reporting an effective regulatory mechanism. This chapter proceeds by discussing how sustainability reporting can function as a regulatory mechanism, and then discusses the actors involved, including the corporations that produce reports, the developers of reporting standards, consulting and assurance providers, intermediary groups that process the information in reports for end users, and the end users.

Sustainability Reporting as a Regulatory Mechanism

When considering the role of sustainability reports, and transparency initiatives in general, it is important to consider how they are supposed to function to achieve their goals. Regulatory initiatives based on transparency fit well into New Governance regulatory approaches (or meta-regulation, and other similar categorizations) (Hess, 2007). Under these approaches, corporations are given a significant amount of freedom to develop their own ways of reaching a particular goal. Thus, this regulatory approach may be viewed as government regulation of self-regulation (Parker, 2007).

The approach is most useful in situations, such as corporate sustainability, where our understanding of the exact regulatory goal is unclear and the means the regulated entity should use to achieve those goals are also unclear (Hess 2006). Due to these means and ends challenges, New Governance approaches focus on problem-solving, decentralization, and broad participation from a variety of stakeholders (with different perspectives and areas of expertise). With the government playing a role of “orchestrator” (as opposed to standard setter), this approach encourages the corporation to experiment on solutions, and stakeholders to both provide guidance and hold the cor-

poration accountable. Through this experimentation and engagement, the actors attempt to find the best solution for the issue or organization at hand (taking into account the relevant unique aspects of the situation), find best practices that can be used for other organizations, and seek continual improvement (Hess 2007).

From this brief description, it is easy to see how transparency through non-financial reporting can be classified as a form of New Governance regulation. In prior work (Hess, 2008), I have described three basic pillars that are necessary for transparency to function effectively as a New Governance method. They are: disclosure, dialogue, and development. Disclosure is the publication of information on how the corporation manages issues related to sustainability and its performance against various indicators. As with any disclosure-based regulation, the information allows stakeholders to hold the corporation accountable. In addition, the information can be used for other purposes, such as the spreading of best practices and examination of the need for other policy interventions.

The second pillar is dialogue. Dialogue is the engagement with the corporation's stakeholders, both during the creation of the report (to determine which issues are of most importance to the stakeholders and ensure the corporation understands evolving societal expectations) and over the information in the report. This includes dialogue with NGOs, consumer groups, investors, and others. The third pillar is development, which refers to the moral development of the corporation as seen through changes in management policies and systems, strategy, operations, and corporate culture. Development ensures that corporations are thinking "critically, creatively, and continually" (Orts, 1995, p. 750) about sustainability, and then implementing changes designed to improve their performance.

With these regulatory goals in-mind, we now take a look at the sustainability re-

porting system and its action cycle, as it currently exists. To do this, we look at each major actor separately, including: the corporations that produce sustainability reports, the organizations that are making the standards for what a sustainability report should include, the consulting and accounting organizations that provide services to corporations producing reports, the intermediaries that process the disclosed information and make it available for other to use, and finally the users, which includes those that directly consume sustainability reports and those that utilize the information through intermediaries.

The Sustainability Reporting System

Corporations

The action cycle of sustainability reporting begins with the disclosure of information by corporations on how they manage issues of sustainability and their performance against certain metrics. Thus, the initial question is how to get corporations to provide disclosure? In most countries, sustainability reporting is primarily voluntary, which raises the question of why corporations produce such reports knowing that stakeholders may use the information to criticize the corporation's performance and demand changes.

Many researchers studying why corporations issue sustainability reports find that legitimacy theory provides the explanation. These studies show that corporations are motivated by attempts to maintain legitimacy with its stakeholders. Corporations viewed by important stakeholders as acting against societal norms on sustainability will lose legitimacy, so they must find ways to demonstrate (or create the perception) that they are socially responsible. Thus, research has found that corporations that operate in industries with significant sustainability concerns and corporations that have

recently undergone a negative incident are all more likely to disclose information on their performance on sustainability matters (for reviews, see Comyns et al, 2013; Hahn et al, forthcoming). This is also consistent with studies showing that corporations adopt certain corporate social responsibility (CSR) practices as a form of insurance against future negative events (Minor & Morgan 2011; Peloza 2006).

Not surprisingly, these disclosures are then focused almost exclusively on positive information. What is surprising, however, is that these symbolic actions (as opposed to true commitments to transparency) seem to work. That is, the other actors in the sustainability reporting organizational field seem to reward disclosures of any quality. For example, Bansal and Clelland (2004), show that firms with low levels of legitimacy with respect to the environment (as seen through negative press coverage) are able to reduce their unsystematic stock market risk by simply using communications that do no more than just express the company's environmental commitment.

Supporting this acceptance of symbolic actions are those organizations in the CSR field that rank corporations on the quantity of their disclosures (i.e., the number of indicators reported against), and not the actual performance of the company. Thus, simply reporting on more indicators—regardless of whether those disclosures are selective and actually work towards creating a misleading impression of the company's efforts and performance—can allow a corporation to be seen by stakeholders as working towards sustainable development. The end result is that readers of sustainability reports will learn that corporations have already “arrived” at the end of goal of sustainable development, instead of being on a difficult journey towards that goal, which requires serious consideration of major changes in operations and strategies (Ihlen & Roper, forthcoming).

To correct these problems, many commentators suggest some form of mandatory sustainability reporting against a standardized form. Thus, as pointed out above, in recent years, the debates have shifted away from whether or not to mandate disclosure, and towards how to mandate disclosure. For example, in 2009, the GRI, the leading standard setter for sustainability reports since 1999 (described below), moved away from a focus on voluntary reports and issued a declaration urging countries to consider adopting mandatory legislation in this area. Until sustainability reporting legislation become more thorough and widespread, the GRI organization, interested investors, and others, have to rely on the “business case” to convince corporations to produce reports. The weight of the existing evidence, however, shows that the business case simply leads to selective and strategic disclosure designed to protect the corporation’s legitimacy. Even if the trends toward mandatory reporting continue, many questions remain on how to create a system around sustainability reports that creates a successful action cycle.

Standard Setters

Sustainability reporting standards provide guidance to corporations on how to structure a sustainability report and what indicators to report against in the report. These standards seek to ensure that reports produce a complete and accurate picture of a corporation’s efforts and performance, and that they meet various stakeholders’ information needs, including allowing the stakeholders to compare the performance of various corporations.

Today, the Global Reporting Initiative (GRI) is the most well-known and widely used standard for the development of sustainability reports. New competition continues to emerge, however. The two major competitors that have appeared in the

last few years are the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC). The main difference between these organizations is that the GRI was established to make corporations accountable to all of its stakeholders. The SASB and the IIRC, by contrast, have investors as their primary audience.

The GRI is a multi-stakeholder organization and seeks to use a governance model that ensures it represents the views of all sectors of society, and not just business and investors. Its reporting guidelines have evolved over time and in 2013 it released its fourth version of reporting guidelines, the G4. The G4 focuses on corporations disclosing “material” information, which it defines as information “that reflect the organization’s significant economic, environmental and social impacts; or substantively influence the assessments and decisions of stakeholders” (Global Reporting Initiative 2013a, p. 7) To determine what is relevant and material for that corporation, the G4 requires corporations to consider impacts outside its legal organizational boundaries, such as its supply chain. These impacts may be “direct or indirect for some topics or as caused by, contributed to, or linked to the organization for others” (Global Reporting Initiative 2013b, p. 34). In addition, a corporation is required to engage with its stakeholders—and disclose how it identified its stakeholders and engaged with them—to determine what issues are of importance to them and should be discussed in the report.

By contrast, the IIRC and SASB focus on investors. The IIRC focuses on “integrated reporting,” which is combining financial reports with sustainability reports into one report, as opposed to having a standalone sustainability report. The idea of an integrated report is that by combining financial and non-financial reports, it will encourage corporations to embed sustainability throughout the organization (and assist

in that process) (Eccles & Krzus, 2010). The IIRC's version of integrated reporting is focused on helping investors identify those social and environmental issues that are material from an investor's perspective.¹ The IIRC's approach is focused on creating the "business case" for the consideration of environmental, social, and governance (ESG) issues, which it believes will cause managers within the corporation to take these issues more seriously and then seek to improve performance (IIRC 2013b).

The SASB has the most limited goal, as it is focused only on improving disclosures in a corporation's annual report on matters material to its investors. The SASB describes itself as "engaged in the creation and dissemination of sustainability accounting standards for use by publicly-listed corporations in disclosing material sustainability issues for the benefit of investors and the public" (SASB 2013a). The SASB states that the SASB and IIRC are both focused on investors as their audience, while the GRI is focused on all stakeholders (SASB 2013b). By using a process of materiality mapping, the SASB begins with forty different sustainability issues and examines their relevance for each industry. Their goal is to produce stand-alone standards for each industry (over eighty in all) that show what issues are "material" for investors (under United States law) and therefore should be disclosed in annual reports. Once the SASB has completed this process for each industry—releasing industry standards separately as they are completed—they plan to work to obtain formal approval of their standards by the SEC. To work towards this goal, SASB seeks to only use indicators that it believes will be auditable (SASB 2013c). By contrast, the GRI seeks to provide greater accountability to all stakeholders through a larger number of required disclosures.

These three standards provide three different models for corporations to follow in producing sustainability reports, as well as three different models for mandatory

requirements from governments. This raises the question of whether the developers of these standards are competitors for users. As corporations feel greater pressure to produce sustainability reports—due to concerns of mandatory reporting requirements and greater pressure from investors and NGOs—there is the potential for a “race to the bottom” where corporations seek to adopt the most lenient standard and the standards setters compete to provide that standard. For instance, for the IIRC to be successful, it has to convince corporations of the “business case” for reporting. The SASB must convince corporations and investors of its value, both for voluntary adoption and, ultimately, to seek SEC approval. The end result may be that the standard that requires the least amount of information and gives the corporation the greatest ability to selectively and strategically disclose will dominate. There is some evidence that this is happening. Based on her observations and interviews with GRI officials, Sarfaty (2013) argues that the “GRI is no longer aimed at empowering its original audience [communities, consumers, NGOs, and social investors] to hold corporations accountable,” (Sarfaty, 2013, p. 607) but instead its primary audience is corporations in order to increase the use of their reporting standards. Levy and colleagues state it more starkly: the GRI standard setters took “efforts to shape GRI as complementary to corporate and financial market needs. The strategic risk, of course, is that GRI would be co-opted and assimilated within these structures rather than transforming them. This does appear to be the emerging outcome.” (Levy et al, 2010, p. 111).

On the other hand, sustainability reporting could evolve in the opposite direction. That is, the SASB approach—which has the most limited goal—may actually lead to greater acceptance and adoption of broader sustainability reporting in the long term. Under this perspective, if corporations adopt (either voluntarily or through SEC mandate) the SASB guidelines for annual report disclosures, then the legitimacy of

non-financial reporting in general increases. Over time, this could lead to expanded disclosures, as investors gain greater familiarity with using this type of information and develop expectations of corporations providing it. This assumes that SASB standards do not become so watered-down through a SEC review process as to provide only very limited information to markets, which could then significantly impede progress due to the lack of usefulness of the information provided.

As the SASB develops, it also suggests a different route for transparency advocates. That is, pushes for mandatory disclosure from those representing non-shareholder stakeholders could focus on matters that fall outside the investor materiality standard. One example may be the Dodd-Frank Act's adoption of requirements that match the Extractive Industries Transparency Initiative (EITI). These could be issue-by-issue pushes for mandatory disclosure requirements, as opposed to reports that seek to push corporations to conduct a holistic review of their operations. Standards such as the GRI could then evolve to focus on how corporations can pull all of this information from various legal requirements (those focused on investor needs and those focused on targeted issues) together into one report, with the additional goal of requiring corporations to understand how these issues fit together in operational and strategic decisions.

Consulting and Assurance Services

Regardless of which standard a corporation chooses (or is required) to use, it will likely need assistance from consultants to create the report and from auditors to provide verification services for those reports. Not surprisingly, one commentator argues that these consultants and assurance providers “derive more economic benefit from the GRI than any other stakeholder” (Sarfaty, 2013, p. 609; see also Levy et al, 2010).

These organizations provide a wide variety of services to corporations related to non-financial disclosure, such as:

- how to engage stakeholders
- the provision of data management services
- how to structure the report and communicate the company's vision and performance more generally
- assurance services for part, or all, of the sustainability report
- how to use the sustainability report within a broader CSR strategy for risk management

As any one organization may provide all of these services as well as others to corporations, there are many potential conflicts of interest. For example, there is a concern that in an effort to please their clients (corporations that are purchasing a wide variety of services from accounting firms and not just services related to sustainability reporting), the accounting firms may overlook disclosures that are technically accurate but do not represent a complete picture of the corporation's performance on that issue (O'Dwyer and Owen, 2007). Some commentators have also expressed the concern that these accounting and consulting firms unduly dominate the setting of standards, such as the GRI, and their conflicts of interest challenge the legitimacy of the resulting standards (Sarfaty, 2013). Apart from conflicts of interest, some have challenged the expertise of many of these organizations to provide verification services (i.e., accounting expertise versus sustainability expertise).

Intermediaries

The end users of the information contained in sustainability reports are not necessarily readers of sustainability reports. Instead, they may use information from sus-

tainability reports that is provided to them through information intermediaries. These intermediaries provide many services to end users, such as transforming the information into a format that is easier and more understandable for the end user, providing the end user with only the information they care most about, comparing the performance of multiple corporations, measuring a company's progress over time, supplementing the information from sustainability reports with other sources of information (both public and proprietary), monitoring the credibility of the information contained in sustainability reports, and other services (Hess 2007).

For example, Thomson Reuters' Asset4 database claims to provide ESG data on over 4,000 global companies, with over 120 analysts collecting information from sustainability reports and other information sources (Thomson Reuters 2013). The intended audience for the data is institutional investors, investment managers, and analysts. MSCI ESG Research provides a similar service, with different products meeting different needs. For example, if an investor wants to minimize the risk of investing in a company that will suffer from reputational risk, MSCI's Impact Monitor database will rank companies based on their performance against soft law mechanisms such as the UN Global Compact (MSCI 2013a). MSCI also provides products designed for investors that want to negatively screen companies that do not meet the investors' ethical standards, as well as products for investors that use positive screening (investing in those companies with the highest ESG performance in their industry) (MSCI 2013b).

Sustainability investment indexes may also be viewed as intermediaries. Indexes such as the FTSE4Good and the Dow Jones Sustainability Indices, combine information from sustainability reports with other data sources (including proprietary data collected through surveys), and then decide whether to include a company in a partic-

ular index. Investors may then choose to use one of these indices as a way of practicing sustainable investing (RobecoSAM 2013; FTSE 2013).

Another group of intermediaries would be those that publish rankings of corporations on certain dimensions. The Newsweek Green Rankings is one well-known example. These organizations that rank companies creates a market for one group of intermediaries to sell data to another group of intermediaries. For example, Trucost collects information on environmental data, which is then sold to companies, investors, and researchers, including Newsweek (Trucost 2012).

In most of these examples of intermediaries, the intermediary is funded by the organization (typically investors) that purchase the products. This has the advantage of avoiding the conflicts of interest that existed in the subprime mortgage market where the credit rating agencies were funded by the organizations whose products they were rating. However, because the investor community is the largest intermediary group, it also means that the push for corporations to produce more and better data, or to use particular standards, is biased by the needs of that community. The interests of other stakeholders, such as employees, consumers, and special interest groups, are not represented, unless filtered through investors. Thus, there is the question of whether this bias is problematic—resulting in sustainability reports that only provide information that is “material” for investors—or if investors are able to work with NGOs and others to ensure that corporations are producing sufficient information to be held accountable to all stakeholders. For example, the anti-corruption NGO Transparency International has worked with investor groups to push for greater disclosure on corporation’s anti-bribery efforts, and they have taken considerable effort to ensure that those disclosures work towards a transparency initiative that meets the goals of New Governance regulation (Hess 2012).

End Users

Who uses sustainability reports? That appears to be an open question. Sustainability reports are becoming institutionalized as a feature of a socially responsible corporation, but the value of the reports to users is not well understood. There are claims that NGOs—initially envisioned as the user of reports in their civil regulator role—do not use the reports because they do not contain sufficiently useful information (either to fully understand a corporation’s actions, policies, and performance, or to compare performance across companies). Intermediaries, such as those described above, use the information to some degree, but they supplement it with additional information (including their own proprietary surveys of corporations). Thus, it is unclear how much they value the information in the reports.

Of course, other stakeholders may use the information in ways that do not follow the action cycle described above of end users creating incentives for disclosers to improve their behavior. For example, industry competitors may use the information to improve their own performance (i.e., learning). As another example, the management team of the discloser may use the process of creating the report to improve operations and to build a company culture that values sustainability. Despite the growth of sustainability reporting, there is little research on how (and if) different stakeholder groups use the reports.

Discussion

The assumption behind transparency initiatives is that disclosure will lead to corporations engaging in some form of a dialogue with stakeholders (ranging from constructively suggesting better practices to shaming practices), which will then cause the corporations to make internal changes (development), so they can produce more

favorable disclosures in future reporting cycles. Considering all the actors involved and their incentives, there are questions on the accuracy of that model and what can be done to improve the system as we move forward. For example, do we need one sustainability reporting standard to attempt to achieve all of these goals? Or, is there room for multiple, complementary standards? In other words, are the IIRC, SASB and GRI competitors, or complements? And, if complements, how does that impact how these standards should evolve and the role of government?

Under the current model of voluntary GRI reports, most research seems to support the conclusion that sustainability reports have their greatest focus on risk management and protecting the company's reputation. This is consistent with broader concerns about using CSR strategically:

By increasingly focusing on strategic forms of CSR activity, MNCs are moving away from a societal understanding of CSR that focuses on redressing the impacts of their operations through stakeholder concerns, back to any activity that supports traditional business imperatives. (Bondy et al, 2012).

The standard response to these concerns is the need for mandatory reporting using standardized indicators and independent verification of the information (and often, required engagement with stakeholders). However, as seen above, the assessment of the potential effectiveness of such a system requires consideration of the current actors in the organizational field surrounding sustainability reports and this raises many questions.

What type of standards should be mandated? Should the standards be more similar to the SASB which is focused on the disclosure pillar, and primarily the needs of investors? Or, the GRI standards which emphasize dialogue (stakeholder engagement) and development? Are these current standards compliments or competitors? Should each push for their standard to be mandatory, or find some other approach?

Answering these questions requires additional, in-depth research on the actors described in this chapter. As just one example, additional research is needed on the influence of different departments and officers within the firm on the sustainability reporting process. For example, consider if the legal department, the communications department, and the sustainability officer each separately developed a sustainability report for the same corporation, and how different each of those three reports would be. This thought experiment may influence how we want the government to become involved. For example, it may be best for the GRI if the government made a SASB-type standard mandatory (which would involve the legal department, but the standards are written to be auditable and may not be significantly affected by significant legal department oversight), and found other ways to incentivize corporations to create sustainability officer positions (and/or sustainability committees on boards of directors). Sustainability officers are more likely committed to the principles of disclosure, dialogue, and development, and may seek to produce GRI-type reports to supplement any mandatory reporting for investors. Thus, the GRI may be better served by getting its standards adopted in practice through this indirect route rather than through government mandated adoption of the GRI standards.

Conclusion

This chapter encourages academics, policy makers, and others, to consider more fully the system required for sustainability reporting to have a meaningful, positive impact on corporate behavior. In short, we need to remember two things. First, transparency is not an end in itself. Any transparency-based policy initiative designed to improve the performance of corporations with respect to issues of sustainability must be based on a clear understanding of how the required disclosures will lead to

improved performance. The New Governance approach to regulation, and the pillars of disclosure, dialogue, and development, provide one way to think through those issues. Second, when considering mandated disclosure of sustainability reports, we must be sure to consider how those reports will be used in practice. There needs to be a clear understanding of how we expect the action cycle to work, where the potential breakdown points of the cycle are located due to various actors' incentives, and how those breakdowns can be avoided or corrected.

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¹ The IIRC states:

At the heart of [Integrated Reporting] is the growing realization that a wide range of factors determine the value of an organization – some of these are financial or tangible in nature and are easy to account for in financial statements (e.g. property, cash), while many are not (e.g. people, natural resources, intellectual capital, market and regulatory context, competition, energy security). [Integrated Reporting] reflects the broad and longer-term consequences of the decisions organizations make, based on a wide range of factors, in order to create value over time.