

Chapter 17

Disclosure for Sustainability: The Case of Integrated Reporting

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ABSTRACT

Besides financial performance, corporations started to disclose their sustainability performances with an increasing awareness on environment. This chapter compares two mainstreams in sustainability reporting, one that relies on guidelines of Global Reporting Initiative (GRI) and the other one that follows the integrated reporting (<IR>) framework published by International Integrated Reporting Council (IIRC) while emphasizing mainly the latter one. Sustainability reports prepared in accordance with the <IR> framework aim to provide accountability for business impacts for a niche target audience, which are the providers of financial capital.

INTRODUCTION

Climate change can be attributed both to climate variability stemming from natural causes and to human activities that alter the atmospheric composition. The IPCC's Fifth Assessment Report (AR5) states that human influence on the climate system is clear. The heat waves, droughts, floods, cyclones and wildfires we have been experiencing show the impacts of climate-related imbalances. These extreme climate events, which are recently more frequently occurring, damage infrastructure and settlements, lead to disruption of food production and water supply, damage to infrastructure and

settlements, morbidity and mortality, and consequences for human mental health and well-being.

For more than 150 years, since industrial revolution, mankind has been devastating the natural resources. Climate change is being felt with the increasing erosion in global balance. As a legacy to future generations we are leaving behind a sphere where physical and biological systems are irreversibly changing. Due to climate change, observed impacts on physical systems are such that glaciers melt, snow, ice and permafrost balances change, rivers and lakes either overflow with floods and spates or dry with drought, land in coastal regions is either worn away by waves

DOI: 10.4018/978-1-4666-6635-1.ch017

and tides or lost with rising sea levels. Biological systems also get affected as terrestrial ecosystems such as forests and oceans are changing. With wildfires, forest habitats are in severe danger also marine ecosystems are in danger with increasing temperatures of ocean water and pollution. So for the next generations, we are leaving a world full of sera gas emissions, rising sea levels, reductions in crops and biodiversity. These changes are attributed to former practices of the industrialized countries and more recently to the practices of the fast growing economies. However, those people who suffer most as a consequence of these practices turn out to be living in the poorest segments. AR5 states that (IPCC, 2014)¹ it is *very likely* that changes in temperature and precipitation, without considering effects of CO₂, will lead to increased food prices by 2050, with estimated increases ranging from 3% to 84%. On the other hand, FAO statistics reveal that share of food expenditure of the poor, which is ratio of food expenditure to total consumption expenditure for the lowest income class in the country, can be over 80% for some countries. The economic burden imposed by the need to maintain food is higher for the poorest segments and with increasing crop prices, the burden is very likely to get heavier and heavier in the coming years.

Time is running out and as IPCC's AR5 puts forward, through mitigation and adaptation, it may still be not too late to reduce and manage the impacts and risks related to the man-made devastations. Other than climate change, hazardous wastes, nuclear plants, nuclear and chemical weapons all add to man-made devastations. To next generations, sustainability is a must for all of us. All private, public and NGO's must take this into consideration.

DISCLOSURE AND SUSTAINABILITY

With increasing awareness on sustainability, many corporations began to announce their annual sus-

tainability reports without any legal obligation. Publicly traded companies are required to submit their financial reports regularly. They have a tradition of preparing their annual reports and reporting their financial performances. Financial reporting today is acknowledged by globally accepted standards like IFRS and GAAP, where measurement, reporting and auditing goes through principles and well-defined practices. These standards also serve to attain numbers and financial statements free of fraud. However, financial reporting still has its drawbacks as it cannot satisfy its readers with its nature of past performance justification. This backward looking style in financial reports and the time needed to aggregate the data and reveal it in an annual report makes it hard for the readers to assess the value that is created by the operations of the business for its shareholders. After all, in these reports the shareholders are trying to find the answer to the question that how much the company can grow and generate dividends for its shareholders in the future.

Sustainability or Corporate Social Responsibility reports add on to the financial reports with revealing non-financial information on company's environmental, social and governance (ESG) performance. Today, data providers like MSCI, Thomson Reuters and Bloomberg announce ESG indicators, rankings, ratings and indices as they are becoming a critical element in the decision making process of investors.

MSCI ESG STATS dataset commenced in 1991 and is one of the longest ESG data time series available to academics and investors. Thomson Reuters' ASSET4 uses more than 250 key performance indicators (KPIs) and over 750 individual data points along with their original data sources. Bloomberg on May 2014 announced that Sustainalytics, which is its environmental, social and governance (ESG) research assessments, is now available to the more than 320,000 subscribers of the Bloomberg Professional service.

Typically ESG data set contains indicators that are designed to identify positive and negative

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