Sustainability Performance Reporting

Subjects: Management

Contributor: Oluyomi A. Osobajo, Adekunle Oke, Ama Lawani, Temitope S. Omotayo, Nkeiruka Ndubuka-McCallum, Lovelin Obi

Sustainability is inherently complex, involving many stakeholders with different interests and expectations. Organisations across different sectors, including energy and bioeconomy, demonstrate their sustainability performance (SP) by evaluating the social, economic, and environmental effects of their business activities. Bioeconomy, like many other interventions, is increasingly important and relevant in achieving sustainable goals, necessitating the need for SP. On the one hand, SP shows organisations' commitment to sustainability, demonstrating how they are meeting the expectations of their business stakeholders and shareholders. On the other hand, companies now realise the potential of sustainability in creating business value by expanding their market share and adding value to their customers, including shareholders and stakeholders.

Keywords: sustainability ; sustainability reporting ; sustainability performance

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1. Overview of Sustainability Performance Reporting (SPR)

The global reporting initiative (GRI) is known for identifying, developing, and disseminating globally applicable guidelines for sustainability reporting. However, the concept of SPR remains a contemporary global concern, resulting in different ways in which reporting is performed by various organisations [1]. Stakeholders are becoming more outspoken on how organisations align their activities and operations with sustainable development principles [2][3], reinforcing Kolk's [4] assertion that different stakeholders are now much more interested in SPR. Hence, organisations are under pressure to disclose their sustainability performance due to their stakeholders' concerns [5][6][7].

SPR is a means to appraise the economic, social and environmental impacts of the business's products, operations, and gross contribution to sustainable development. Acknowledging stakeholders' importance, GRI [8] defines SPR as the method of assessing, disclosing, and being accountable to external and internal stakeholders regarding how businesses contribute to sustainable development goals (SDGs). Furthermore, Fonseca et al. [9] referred to SPR as a framework comprising indices, indicators, principles, conceptual models, criteria, policies, and goals. Likewise, Kocamiş and Yildirim [10] defined SPR as a report that provides information concerning an organisation's social, economic, and environmental performance. While SPR is perceived as a method or framework, it provides an informative analysis of the organisation's approach, progress, and issues in achieving the goals of its sustainable development and strategy [11]. These views mirror Yılmaz and Nuri İne's [12] claim that SPR represents a means via which organisations provide traceability of sustainability in their operations or activities based on some indicators. The existing conceptualisation of SPR suggests it as an instrument for organisations to present their overall social, economic, and environmental impacts to their stakeholders. Rather than the one-way information dissemination approach, SPR should foster the exchange of sustainability-related information between organisations and diverse stakeholders.

Therefore, organisations' focus should be beyond making profits for their shareholders as they must consider the impacts of their operations on their stakeholders [13]. Organisations should have structured and formal performance indicators to assess their performance as sustainable development agents [14]. Performance indicators have been considered the most effective way of evaluating sustainability performance to present information for management and decision-making purposes [7]. Furthermore, Singh et al. [15] added that performance indicators are used to condense and summarise data to produce a report. Even though scholars have argued that the selection of performance indicators is influenced by the business activities of organisations, sustainability reports should focus on social, economic, and environmental dimensions [16]. For example, biomethane plants could provide economic and social benefits [17]; however, their sustainability impacts and how they affect stakeholders should be examined and communicated with stakeholders.

1.1. Environmental Sustainability

All organisations have an impact on environmental resources. As a result, environmental sustainability has been the focus of many studies compared to other dimensions of sustainability. The consensus from the available studies suggests that organisations must develop plans to monitor and measure such impacts and design strategies to ensure that the environmental resources are used sustainably both now and for future generations [18].

1.2. Economic Sustainability

A sustainable economy focuses only on increasing the stock of man-made capital. However, this entry perceives "economic sustainability" as how business activities increase man-made capital without having negative impacts on the environmental, social, and human capital. In other words, economic sustainability refers to the consistent long-term growth of business activities without jeopardising the environmental, social, and cultural value of the community where businesses operate [19]. This view suggests that economic performance indicators should address the organisation's economic impacts on different stakeholders, demonstrating the contribution of businesses to the economic prosperity of their local community.

1.3. Social Sustainability

Social sustainability is a complex concept with practitioners, including businesses, often conflate the process with corporate social responsibility partly due to the lack of a coherent and precise definition of social sustainability [20]. Despite the lack of consensus in the literature, social sustainability addresses intra- and inter-generational equity and emphasises the relationships between human activities and stakeholders, including communities. Using Elkington's triple bottom line model, this entry defines social sustainability as economic activities with minimal or no negative short/long-term effects on people and society. From a business perspective, the dimension establishes decisions and priorities that ensure the achievement of stakeholders' needs and expectations, suggesting that the social performance element focuses on organisations' contribution to stakeholders' wellbeing.

Sustainability performance reports (SPRs) offer organisations the opportunity to incorporate sustainable thinking into their planning, implementation, control, and decision-making activities. Organisations must provide SPRs because it plays a fundamental role in implementing sustainable development [14]. As organisations start acknowledging the importance of SPR, the need for sustainable business practices becomes increasingly apparent [16]. According to Alon and Vidovic [21] and Comyns et al. [22], SPR enhances organisations' reputations and strengthens their legitimacy, particularly through public perceptions. Arguably, organisations that actively report their sustainability practices gain a positive reputation from the stakeholders and promote transparency. However, organisations must provide a feedback mechanism to allow suggestions and contributions from stakeholders on how organisations could improve. This SPR approach reduces information asymmetry [23], decreasing organisations' risk exposure [24]. The feedback loop allows organisations to be transparent in their sustainability reporting, legitimising their business activities and enhancing their reputations with stakeholders. The observed positive relationship between SPR and transparency [18][25] positions SPR as a legitimate way of elevating an organisation's reputation [26]. Therefore, publishing SPR habitually allows businesses to maintain and increase stakeholders' trust [27] and loyalty [28], providing the opportunity for businesses to attract talented human resources and maximise corporate and stakeholders' wealth [29][30][31]. SPR could help promote a harmonious relationship between a company and its stakeholders while fulfilling stakeholders' expectations, reinforcing the need for active stakeholder involvement in SPR [31].

Scholars argue that sustainability performance reports are useful for policymaking and public communication because they provide information on organisations' performance in social, economic, and environmental development areas [15]. However, how organisations communicate sustainability performance to their stakeholders remains a significant concern. Borga et al. [32] emphasised the need for a comprehensive framework to communicate and manage initiatives related to organisations' environmental and social aspects. SPRs are expected to bring about a balanced and complete picture of an organisation's sustainability performance; however, they are prone to a different interpretation from stakeholders [33], possibly because the communication of sustainability results/efforts is mostly unregulated [34]. This view further suggests the disparity in how information concerning organisations' sustainability performance is gathered, written, and disseminated.

2. Theoretical Perspectives on Sustainability Reporting

The need for organisations to be transparent and accountable in their activities and operations has received the attention of scholars and practitioners in recent years [35]. This awareness has resulted in increased disclosure by organisations of their performances due to external influences [18][36]. This interplay makes stakeholder and communication theory relevant in explaining why organisations should report their sustainability performance.

Based on stakeholder theory, organisations have obligations towards different stakeholder groups other than their shareholders [37]. The theory offers a unique approach to understand business responsibility by suggesting that it is imperative to meet several stakeholders' requirements while satisfying shareholders' needs. Investors, employees, suppliers, customers, shareholders, non-governmental organisations, trade associations, the media, and other interest groups are different stakeholder groups identified within the literature. In addition, Mitchell et al. [38] stated that the relevance of stakeholders is determined by possessing one or more attributes of legitimacy, power, and urgency. Lee [36] added that salient stakeholders' pressure has a significant influence on an organisation's social behaviour. Stakeholders can influence an organisation's actions and decisions based on these attributes. This influence, therefore, compels organisations to yield to stakeholders' expectations on sustainability performance reporting [39]. Stakeholders' potential to exercise influence on an organisation's behaviour has been an inherent part of the classic stakeholder definition that stakeholders are any individual or group affected or can affect by organisations' activities when fulfilling their goals [40]. It echoes Guzman and Becker- Olsen's [41] assertion that organisations made significant changes to their activity and operation mode due to consumer actions. Arguably, integrating different organisations' salient stakeholders' needs into the decision-making process to create sustainability performance reports calls for effective communication with stakeholders.

Ziemann [42] referred to communication as a technologically and human-based activity of the reciprocal interpretation of signs and the reciprocal use of signs for successful coordinating action, understanding, and shaping reality. This view suggests that communication involving at least two actors is a social process and contributes positively to obtaining buy-in, mobilisation, and agreeing on a consensus between parties [43]. Communication, therefore, plays a significant role within and outside the organisation's environment. The stakeholder theory supports the importance of communicating organisations' sustainable development. Communication transpires when sustainability-related matters and performance are conceived, defined, discussed, planned, and initiated between an organisation and its stakeholders [44].

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