

The Impact of Sustainability Reporting on Financial Performance

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Solving sustainability challenges has become an integral feature of leading companies playing a decisive and pivotal role in reaching the Sustainable Development Goals. The 17 Sustainable Development Goals (SDGs) defined by this Agenda form a conceptually new field of conditions and tasks for enterprises, for the implementation or achievement of which it is necessary to adapt or transform production and management business processes to ensure the implementation of green and socially responsible business models.

Keywords: financial performance ; sustainability reporting ; content analysis

1. Introduction

In today's environment, in addition to achieving the main goals of generating profits and increasing the cost of capital, companies must ensure the implementation of the 2030 Agenda for Sustainable Development, formed by the United Nations ^[1]. The 17 Sustainable Development Goals (SDGs) defined by this Agenda form a conceptually new field of conditions and tasks for enterprises, for the implementation or achievement of which it is necessary to adapt or transform production and management business processes to ensure the implementation of green and socially responsible business models. Based on the provisions of legitimacy and stakeholder theories, only through such changes can companies ensure trusting relationships with society and other groups of stakeholders, minimizing the risk of conflicts and boycotts, which will contribute to their mutual prosperity, the achievement of public welfare, and the expansion of the choice and freedom of people.

Solving sustainability challenges has become an integral feature of leading companies playing a decisive and pivotal role in reaching the SDGs, solving social and environmental protection problems ^{[2][3][4][5][6]}, and ESG practices have become vital for the public and company investors ^{[7][8]}. Therefore, the results of achieving companies SDGs should be reported to their management, corporate governance bodies, capital providers and other stakeholders, which allows for assessing the corporate sustainability profile ^[9]. While in 1997, of the 250 largest Fortune 500 companies in the world, only 35% disclosed information about sustainability, in 2020, this figure had increased to 96% ^[10]. Ongoing decision making, policy making and strategy development by internal and external stakeholders in such an environment are based not only on the consideration of traditional financial performance indicators, but also on the efforts and ability of companies to achieve the SDGs.

To meet such information needs of stakeholders, companies publish various types of reports (sustainability, integrated, SDG, non-financial, etc.), which at the same time act as an institutional tool for improving their behavior in the context of solving sustainable development problems ^[11]. Thus, the introduction of corporate reporting procedures based on their impact on sustainable development contributes not only to increasing the transparency of activities, but also affects the financial performance of companies. However, the specifics and direction of such an impact have been little-studied, which is especially true for countries that have only recently introduced mandatory disclosure requirements for public companies or where such a voluntary practice has not been significantly developed, such as in Turkey.

2. The Impact of Sustainability Reporting on Financial Performance

In recent years, the issue of the impact of sustainability disclosure on the financial performance of companies has been the subject of research by scientists from various countries around the world ^{[12][13][14][15][16]}. This is due to the need to determine the role of sustainability practices in improving the financial efficiency of companies and the development of the economy of countries as a whole. This issue is also relevant for Turkish companies, some of which in recent years have begun to more actively publish sustainability reports, establishing more effective communication interaction with stakeholders.

The analysis of the impact of sustainability disclosure on the activities of Turkish companies was studied by scientists long before its mandatory regulatory approval for Turkish public companies in 2020. This is primarily due to the application of the GRI methodology by some companies since 2006 to form non-financial reporting and develop institutional support for the publication of sustainability disclosures on the Istanbul Stock Exchange (ISE), particularly due to the introduction of the BIST Sustainability Index in 2014. This proves that some Turkish companies have long been using additional sustainability disclosure tools, creating the necessary information space to change the behavior of capital providers toward sustainability orientation. However, such an experience did not always have a positive effect, but was characterized by approaches similar to SDG washing.

Thus, Agca and Önder ^[17] examined the impact of various factors influencing voluntary disclosure levels for Turkish ISE-listed non-financial firms. They found that all the companies surveyed were reluctant to disclose non-financial information, which included information about employees, corporate governance, and socially significant information. Senal and Aslantaş Ateş ^[18] substantiated the feasibility of creating a single standardized report to disclose the social and environmental performance of business, which should generally increase the level of transparency of companies and ensure sustainable corporate development.

Aktaş, Kayalidere and Kargın ^[19] examined the compliance of sustainability reports of nine Turkish companies with GRI requirements and found their minimum compliance and information limitations, particularly in terms of performance measures. The authors also noted the need for research that will analyze the impact of the level of sustainability disclosures on firms' performance. Kartal ^[20] also confirmed a similar situation with compliance with the minimum requirements of the GRI standards for Turkish banks. Kocamiş and Yıldırım ^[21] examined the compliance of reports published by Turkish companies with the GRI requirements and highlighted the positive role of the BIST Sustainability Index in ensuring the sustainability of Turkish companies, since the publication of sustainability reports will increase stakeholder confidence in companies and increase business transparency for government, public and capital providers. Dursun and Burcu ^[22] and Aracı and Yuksel ^[23] also noted the need to unify sustainability reports that are disclosed by companies with the BIST Sustainability Index based on the GRI methodology.

Thus, in the absence of normative regulation of sustainability reporting in Turkey, researchers basically justified the need to introduce a single format of such a report, explained its formation on the basis of a certain methodology (GRI, IR, etc.), emphasized the feasibility of introducing regulatory rules that would allow for creating a better institutional environment for sustainability disclosure, and also noted the need to analyze the effect of sustainability practices on the financial performance of Turkish companies.

However, with the gradual harmonization of sustainability reports published on the ISE, based on the GRI methodology, the vector of scientific research in this area is gradually changing, and considerable attention is beginning to be paid to the study of cause-and-effect relationships between sustainability reporting and financial performance, profitability, market cost, etc. The introduction of the sustainability reporting regulation in Turkey in 2020 for ISE-listed companies has given an even greater push to the development of this line of research, with the result that the number of academic studies on the impact of corporate sustainability practices on financial performance has increased significantly in recent years ^[24].

Thus, Önder ^[25] examined the impact of institutional sustainability on the profitability (ROA) of 33 Turkish organizations that published their sustainability reports according to GRI in 2015 on the ISE. To carry this out, he used the Overall Sustainability Rating (OSR) indicator and its four structural elements (performances) according to the GRI methodology (community, employees, environmental, governance). As a result of applying the regression analysis, a significant positive impact of OSR and environmental performance on ROA was revealed.

Doğan and Kevser ^[26], having studied the activities of 10 banks from the Turkish banking sector for 2013–2018, found that ESG indicators from their published sustainability reports do not affect their financial performance (ROA, ROE). Emir and Kıymık ^[27], after examining the role of GRI sustainability reports of BIST Metal Goods companies listed on the ISE for 2014–2018 in supporting their financial performance measures (ROA, ROE, ROC, profit before tax, growth rate in total assets), found a significant positive impact on the first four indicators and a significant negative impact on the growth rate in total assets.

Kılıç et al. ^[28] investigated the impact of sustainability score (moderator variable (SP × SIZE)) on the financial performance (ROE, ROA, ROS, MV/BV) of Turkish companies included in the BIST 100 ISE index. The use of such an independent variable made it possible to analyze the effect of firm size on financial performance measures; in particular, it was found that the moderator variable has a significant impact only on ROA.

Dincer, Keskin, and Dincer ^[29] analyzed the impact of sustainability reporting on the ROA of 46 Turkish companies listed on the ISE over the period 2016–2020, and found, using pooled ordinary least squares, that sustainability reporting has a significant positive impact on ROA and a significant negative relationship between risk, size and ROA. Aydoğan and Kara ^[24] also confirmed that there is a trend towards the positive impact of sustainability practices on financial performance and provided evidence of this from an analysis of 58 non-banking companies listed on the ISE in 2015–2021. They determined that there is a positive relationship between corporate sustainability practices and ROA, and LEV has a negative significant effect on ROA.

An analysis of works that study the impact of sustainability reporting on financial performance of various types of Turkish companies indicates that there is no clear understanding of the role and significance of such practices for a company's financial wellbeing, since such an impact, if any, is characterized by different directions (positive, negative, mixed) and the degree of its significance (significant or insignificant). Similar results have also been obtained by scientists from similar studies in other countries ^{[4][7][8][12][30]}. The reason for this situation is a number of institutional factors that affect a company's activities in a particular industry, the results of their publication of sustainability reports, and the methodology used by scientists to conduct research (sample size, time interval, analysis method, etc.). As a result, the impact of sustainability practices on companies' financial performance remains not fully understood due to their versatility and overlapping, and due to the presence of contradictory and ambiguous empirical results, and therefore, this issue is one of the most relevant for further scientific research.

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