Chapter 2

DEFINING SUSTAINABILITY: THE EVOLVING DEBATE AND INITIATIVES FOR CORPORATE REPORTING

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2.1. Introduction

During the past 40 years, the concepts of sustainability and sustainable development have been part of a broader political discourse, which have exposed their meanings and dimensions to manipulations and contestations (Cohen *et al.*, 1998). The debate on what it means to be sustainable has attracted the attention of a large number of national and international institutions, policy makers, cross-country initiatives and academics.

Sustainability and sustainable development are not considered to be two "static" concepts, that are stable in space and time (Gray, 2010), but refer to the durability and stability of dynamic processes in the long run, and implicitly integrate social, environmental and economic dimensions of present and future well-being (Stiglitz *et al.*, 2009). The durability and dynamism of the concept of sustainability, as well as its social, environmental and economic determinants, have often been interpreted in different ways (Drexhage and Murphy, 2010) and usually considered as separated by various researchers (Bebbington and Gray, 2001; Bebbington, 2009; Gray, 2010).

According to Lozano (2008), generally the concept of sustainability has been perceived as being highly "anthropocentric, compartmentalised, and lacking completeness and continuity" (Lozano, 2008 p. 99). In many other cases, the concept of sustainability has been considered as only focused upon

environmental issues (e.g. Reinhardt, 2000; Drexhage and Murphy, 2010).

In this respect, Han Onn and Woodley (2014) emphasised that the number of definitions provided (more than 70 according to Lozano and Huisingh, 2011), as well as the different ways in which sustainability has been defined, have left this concept basically undefined.

Although significant effort has been expended on debating how environmental problems, social development and long-term economic viability are linked together within the concept of sustainability, it seems there is still no consensus on what sustainability actually means.

2.2. Defining sustainability

2.2.1. Sustainability as an environmental concept

The first relevant conception of sustainability emerged during the late 1970s and early 1980s when the term was associated with the need to protect the environment and natural resources. In this context, a growing concern for global environmental problems and scepticism about the possibility for reducing industrial pollution significantly (Meadows, 1972) pushed the United Nations (UN) to address these problems as a "barrier to development" (Kidd 1992, p. 16). One of the key steps in this direction was the UN Conference on Human Environment, which took place in Stockholm in 1972. The conference led to the development of 26 principles, most of which addressed the need for common principles for the protection of the environment.[1] The most relevant outcome of the conference held in Stockholm was the creation of the UN Environmental Programme (UNEP), an agency of United Nations that coordinates its environmental activities and assists developing countries in implementing environmentally sound policies and practices. In particular, the UNEP is responsible for the protection and improvement of the environment, climate change preservation and the safeguard of wildlife heritages and their habitats.

In 1979, the International Union for Conservation of Nature (IUCN), in consultation with the World Wildlife Fund (WWF) and UNEP, set up the World Conservation Strategy (WCS) to help advance the achievement of sustainable development through both the improvement of human life and the conservation of natural resources. The primary aim of the WCS was to promote sustainable development through the identification of priority conservation issues (Drexhage and Murphy 2010). In this context, the term

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[1] http://www.unep.org/documents.multilingual/default.asp?documentid=97&articleid=1503

conservation refers to the "management of human use of the biosphere so that it may yield the greatest sustainable benefit to present generations while maintaining its potential to meet the needs and aspirations of future generations" (IUCN, WWF and UNEP 1980, introduction "World Conservation strategy").

The term *conservation* and its definition gained greater emphasis in 1987, when the report released by the World Commission on the Environment and Development (WCED), known as the Brundtland[2] report, provided the most popular definition of sustainability, that is, a "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (p. 45). The report was presented as a "global agenda for change" (WCED, 1987, p. ix) and identified sustainable development as the solution to the growing concerns over environmental degradation and the effects of the consumer society. The report was widely recognized by practitioners and academics as being the first official document that popularized the concept of sustainable development and positioned it as a topic of national and global importance, focusing on the reconciliation of the needs of present and future generations (WCED, 1987, p. 49). The attention given to the needs of present and future generations by the WCED's definition emphasized the importance of social aspects, and particularly, the key determinants of social equity.

2.2.2. Sustainability as a social concept

The United Nations Conference on the Environment and Development, known as the 'Earth Summit' in Rio de Janeiro in 1992, was the most significant event after the WCED in 1987. Not only was the Earth Summit a relevant moment for placing sustainable development at the forefront of many political agendas, but it created discussion among a broad number of stakeholders including world leaders (with nearly 100 world leaders and 172 nations represented), non-government organisations and some citizen representatives. Also, profit and non-profit organizations took part in the Earth Summit in 1992 as members of the World Business Council for Sustainable Development (WBCSD), formed in 1990 to give organizations the opportunity to participate in the process leading up to the Summit.

Since that time, a number of important international conferences on sustainable development have been held – including the Kyoto Conference on Climate Change in 1997, the Earth Summit+5 in New York in 1997 and

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[2] The report issued by the World Commission on Environment and Development (WCED) is known as the "Brundtland Report, in honour of Gro Harlem Brundtland former Prime Minister of Norway and Chairman of the WCED commission in 1987.

the 2002 World Summit on Sustainable Development (WSSD) in Johannesburg. According to Drexhage and Murphy (2010), the 2002 Johannesburg World Summit on Sustainable Development (WSSD) "demonstrated a major shift in the perception of sustainable development – away from environmental issues, toward social and economic development" (p. 8).

This shift was strongly influenced by the release of the Millennium Development Goals (MDGs) issued by the United Nations (UN) in September 2001 and the necessity to encourage corporate social responsibility in developing countries. While the MDGs, in theory, applied to all countries, they were considered as targets for poor countries to achieve with finance from wealthier countries. The release of the MDGs aimed to provide a set of targets that were to be achieved by 2015 and to guarantee the respect of the rights and needs of the worldwide population, encompassing themes such as poverty, health and discrimination.

In 2012, a 20-year follow-up to the 1992 Earth Summit took place in Rio de Janeiro. The so-called United Nations Conference on Sustainable Development (UNCSD), also known as Rio+20, was aimed at securing renewed political commitment for sustainable development, by assessing the progress and implementation gaps in meeting the Millennium Development Goals, and also addressing new and emerging challenges. The establishment of the post-2015 goals was an outcome of the Rio+20 summit, which mandated the creation of an open workgroup that was to come up with a draft agenda. Within Rio+20 the UN agreed on the need for the release of the post 2015 MDGs, known as the Sustainable Development Goals (SDGs), by emphasizing the importance of both social and environmental concerns and the need for a more comprehensive definition of the role of business for sustainable development. The sustainable development goals (SDGs), similar to the previous MDGs, represent a universal set of goals, targets and indicators that UN members are expected to use to frame their agendas and political policies up to the year 2030.

The SDGs follow and expand the millennium development goals (MDGs). In fact, not only do they address some of the systemic barriers to sustainable development, but they also offer better coverage of, and balance between, the three dimensions of sustainable development – social, economic and environmental – and institutional/governance aspects (ICSU, ISSC; 2015). The goals are applicable in developing and developed countries alike. Governments can translate them into national action plans, policies, and initiatives that reflect the different realities and capacities their countries possess. Different from the MDGs, the SDGs are designed to engage a wide range of organizations and shape priorities and aspirations for sustainable development efforts around a common framework. Most importantly, the

SDGs recognize the key role that business organizations can play in achieving them (for a in depth review on SDGs see Busco, Granà, Izzo, 2018).

2.2.3. Sustainability as a business concept

The growing public awareness of environmental and social development has made broader sustainability concerns an inherent challenge for business (See Bebbington and Larrinaga, 2014). Since the release of the Brundtland report and the Rio Summit, sustainable development has transitioned from being an interesting, yet at times contested, ideal to a concept that enjoys widespread endorsement by international institutions, governments, businesses, and civil society. Confronted with these pressures, since the early 1990s, organizations have begun to use their annual reports to provide information, initially, on their environmental footprint, and then later, on sustainable activities through their sustainability reports (Gond *et al.* 2012; Spence and Rinaldi, 2014).[3]

From a business perspective, sustainability has been defined as the ability of an organization to last in time, by looking at its financial performance as well as the environmental and social assets that compose its capital (Gray 2010). Business approach to sustainability aims to balance the short and the long-term supply and demand of resources. Thus, sustainability is meant as the ability of organizations to respond to their short-term needs without compromising the ability to meet future needs.

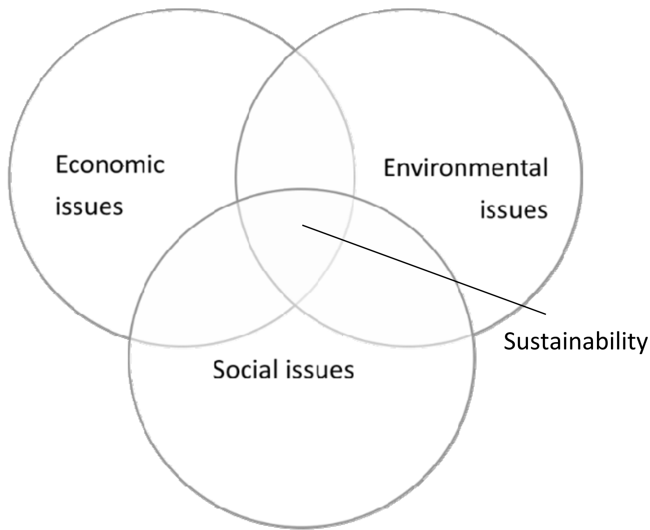
This view stimulated debate among different scholars on whether sustainability as a concept may be approached by organisations to support and balance economic, social and environmental growth (i.e. Elkington, 1997; Adams, 2008).

Different positions emerged on balancing economic, social and environmental issues. In particular, business positions on sustainability varied whether they refer to a "weak" or "strong" approach to sustainability (Gray and Bebbington, 2001; Hopwood, Mellor and O'Brien, 2005; Stiglitz *et al.*, 2009). The "weak" sustainability position does not question the present mode of economic development and views sustainable development as being compatible with some modified version of "business-as-usual" (Hopwood *et al.*, 2005; Stiglitz *et al.*, 2009). "Weak" sustainability expects that human produced gaps in the natural world, such as a lack of resources

[3] According to the KPMG survey of corporate responsibility reporting in 2015, the number of companies that now disclose and report information on their environmental, social and economic effects has increased exponentially (KPMG, 2015). This survey shows that 92% of the world's 250 largest organisations had issued some type of standalone CSR report (KPMG, 2015).

or damage to the environment, will be compensated by organizations' technological and innovative development. In this view, economic growth is part of sustainable development, producing a richer world that is more ecologically stable (Hopwood, *et al.* 2005). Consequently, the weak position considers the three aspects of sustainability (e.g. environmental, social and economic) as being related to each other, but fundamentally separate (Tregidga, 2007) (see figure 2.1).

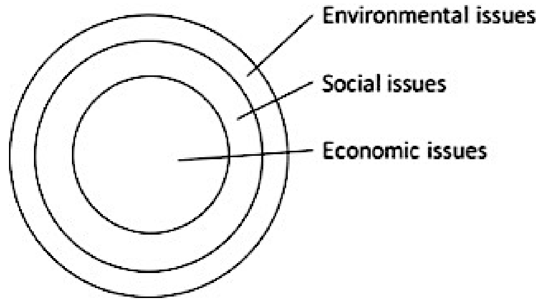
Figure 2.1 – Venn Diagram representation of sustainability (Source adapted from Lozano 2008, p. 1839).



Conversely, the "strong" sustainability position points out that human capital and technological innovation cannot replace a multitude of processes that are vital to human existence, such as biodiversity protection, climate change or water management (Bebbington, 2001, p. 139). This concept of sustainability recognises the open nature of the interaction between social environmental and economic issues (Tregidga, 2007). In the "strong" sustainability position, the economy is not considered as being apart from society and the environment, but relies on these two elements, not only for its success but also for its existence. In the "strong" position of sustainability, the three elements of the economy, society and the environment are not separate entities, but instead, society is a subset of the environment, and the economy is a subset of both society and the environment (see figure 2.2). [4]

[4] In Figure 2.1, sustainability is represented at the centre and is surrounded by three

Figure 2.2 – Sustainability as concentric circles (Source adapted from Lozano 2008, p. 1839).



These representations have been criticized as considering sustainability as compartmentalized, without highlighting how the environmental, social and economic dimensions affect each other, limiting the concept of sustainability to a moment in time and consequently overlooking its dynamicity over time (Stiglitz *et al.*, 2009).

In this regard, other researchers have attempted to categorise business positions to sustainability using different models and representations, by looking at their different approaches (Hopwood *et al.*, 2005) and long-term orientations (Lozano, 2008).

For instance, Hopwood *et al.* (2005) map organizations different positions on sustainability, policy frameworks and attitudes into three main categories: The *Status quo*; the *Reform* and the *Transformationist* approaches.

The *Status quo* approach recognizes the need for change but sees businesses as being drivers towards sustainability, and economic growth as being a driver of sustainable development (Hopwood *et al.*, 2005). In this regard, Hopwood *et al.* (2005) explain that through the status quo approach there is a widespread perception that organizations increase information, changing values and new technology that may operate as the best means for

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circles that are interrelated and represent the correlations between environmental, social and economic initiatives. In this figure, sustainability is achievable only if social, environmental and economic issues are met simultaneously (Lozano, 2008; Tregidga, 2007). Conversely, Figure 2.2 represents sustainability as resulting from three concentric circles with the largest representing the dimension of the natural environment and the second and third inner sub-circles indicating the dimensions of 'the society' and 'the economy' (Lozano, 2008). In this second representation, the environmental dimension has a predominant position in respect to the society and economy. Although these representations provide a basic understanding of the concept of sustainability, they suffer from various drawbacks and do not clearly explain the interacting relationships between social, economic and environmental issues (Lozano, 2008).

achieving sustainable development (Hopwood *et al.*, 2005).

The *Reform* approach accepts that the critical issues involved in current policies of most businesses, governments and trends within society (e.g. climate change; poverty reduction) need to be addressed, however, it does not consider that a collapse in ecological or social systems is likely, nor that fundamental change is necessary (Hopwood *et al*., 2005).

The *Transformationist* approach, as the name suggests, seeks a radical transformation of society and/or human relations with the environment to avoid a mounting crisis or even a possible future collapse. In this regard, the Reform approach is viewed as being insufficient since many of the problems are considered as being located within the actual economic and power structures of society, hence they are not primarily concerned with human well-being or environmental sustainability (Hopwood *et al*., 2005).

Lozano (2008) provides a further categorization of business positions to sustainability by stimulating reflections on organizations'"time" related orientations and their approach to economic, social and environmental issues (Lozano, 2008, p. 1838). In particular, he identifies the following five perspectives: *Conventional Economists*; *Non-environmental Degradation*; *Integrational* (i.e. encompassing the environmental, social and economic aspects); *Inter-generational*; and *Holistic* perspectives.

The *conventional economist's* perspective sees sustainable development as a further, desirable, economic development path. It is very limited in scope since it confuses sustainable with economic development, and thus neglecting the impacts of economic activities upon the environment and societies in the short, medium and long term. The *Non-environmental degradation* perspective represents an alternative way to consider industrialization's negative effects on the environment, valorising those activities that do not interfere with the overall environmental development. The *Integrational perspective* requires organizations to demonstrate how economic, environmental and social aspects of their activities integrate and affect each other (Lozano, 2008, p. 1840). The *Inter*-generational perspective focuses on the long-term effects of organizational activities, as the Brundtland Report suggests. The *Holistic* perspective explicitly combines the integrational and intergenerational perspectives, emphasizing two dynamic and simultaneous equilibria between "space" and "time" (Gray and Milne, 2002; Gray, 2010): the first one among economic, environmental and social aspects; and the second among the temporal aspects. i.e. short-, medium – and long-term issues (Lozano, 2008).

The nearly universal adoption of sustainability as a relevant issue of the viability and long-term growth of a business is, in part, due to organiza-

tions' awareness of its definitional flexibility and multiple interpretations.

However, the various views of sustainability interpretations aroused in the literature as well as the lack of clarity in its definition gives rise to ambiguity and conflicting views and opinions about what the outcomes of sustainable development are or what they ought to be (Joseph, 2012).

A number of critical studies maintain that a large part of this debate and the related confusion resides in the conceptual ambiguity of the definition of sustainability provided by the Brundtland report and the complexity of the objectives that it aims to pursue. Cohen *et al.* (1998) highlighted that the Brundtland report's definition of sustainability cannot be regarded as being 'scientific', but rather, as being part of a broader political discourse, which has exposed the concept to manipulation. Laine (2005) also emphasised that the elusiveness of the definition provided by the Brundtland Report has enabled the concept of 'sustainable development' to gain prominence in environmental and social discourses worldwide, as "it has been possible to define the concept to suit one's own purposes" (p. 397). According to Bebbington and Larrinaga (2014), "the broad nature of the Brundtland Report's definition of sustainable development has allowed a wide coalition to unite under its rhetoric while the implications that arise from its application in particular situations remain contested" (2014, p. 400). It is, therefore, possible to point to an array of issues that sustainable development concerns itself with, without coming to a formal definition that would encompass all possible activities that might arise within its ambit (2014, p. 399).

This has allowed both businesses and governments to be in favour of sustainability without making any fundamental challenge to their present course (Hopwood *et al.*, 2005; Laine, 2005; Gray, 2006; 2010), and has facilitated in the concept becoming rhetorical, making it meaninglessness and giving organizations and politicians the opportunity to use it as a catchphrase for demagogy (Hopwood *et al.*, 2005). According to Gray (2010), such demagogy and rhetoric also result from organizations' mistaken understanding of the concept of sustainability, which is mainly considered as a "system based concept and, environmentally at least… [that] only begins to make any sense at the level of eco-systems and […] difficult to really conceptualize at anything below planetary and species levels" (Gray, 2010 p. 48).

Further, after the follow-up Earth Summit in Johannesburg in 2002, not much appeared to have changed. Governments and businesses see sustainability as being a continued economic growth that has been made more environmentally sensitive in order to raise living standards globally and to reduce the gap left by increasing poverty and environmental degradation.

Despite organizations' recognition of and commitment to sustainability, the actions taken have not led to the core changes that are necessary for supporting a transition to sustainable development.

Various interpretations of sustainability have led to confusion in organisations and have compromised implementation globally (Gray, 2006). This has also given rise to an extensive debate about the nature and extent of information that organisations should provide and how they can measure, manage and communicate the social and environmental impact of their activities.

Further multiple institutions, NGOs and initiatives, as well as regulators, have tried to address these problems by providing guidelines, standards and principles regarding the ways in which organizations should report their environmental impact and progress toward sustainable development.

The following paragraph provides an overview of the most relevant frameworks and guidelines issued since 1987 for corporate social responsibility and sustainability reporting.

2.3. The need for a reporting framework: directives and initiatives on sustainability

Considering the increasing necessity to understand the role of organizations towards the achievement of sustainable development, national institutions and regulators have developed guidelines, principles and standards to enhance organizations' accounting and reporting in this regard. For instance, the UK introduced legislation in 2006 and updated it in 2013; Sweden adopted legislation in 2007; Spain in 2011; Denmark amended its legislation the same year and France in 2012.

In April 2014, the European Parliament passed a legislative resolution regarding the disclosure of non-financial information for large public-interest entities with more than 500 employees, (e.g. listed companies, banks, insurance undertakings and other companies that are so designated by Member States), in order to increase their transparency in communicating their environmental and social performance and, consequently, to contribute effectively to long-term economic growth and employment.

Building on some of the pre-existing developments listed above, at an individual country level in Europe, the European Union Directive 2014/95/EU requires that more than 6,000 large companies disclose in their management report relevant and useful information about their policies, main risks and outcomes relating to environmental matters; social and

employee aspects; respect for human rights; anticorruption and bribery issues; and gender diversity in their board of directors. The aim of this regulation is to provide investors and other stakeholders with a more complete picture of an organization's financial and non-financial, as well as social, environmental and economic performance (European Commission, 2014). The first reports will be published in 2018 on activities of FY2017 (European Commission, 2014). According to the statement issued by the European Commission, the Directive 2014/95/EU provides technical content, but it is also important in cultural terms since the new directive attempts to increase transparency (defined by the Anglo-Saxon term disclosure) of business management (Eccles and Spiesshofer, 2015). The directive also aims to enhance consistency and comparability of non-financial information disclosed by organizations within the European Union, while respecting the necessities of organizations to use the most suitable international or national guidelines and approaches for sustainability reporting and corporate social responsibility (Eccles and Spiesshofer, 2015). In this regard, organizations retain significant flexibility for disclosing relevant information in the way that they consider most useful. They may use international, European or national guidelines according to the characteristics of their business or business environment (for instance, the UN Global Compact, Global Reporting Initiative or Integrated Reporting, etc.).

However, these guidelines vary widely in terms of scope, specification, issues covered, and methodology. For example, by providing guidelines to companies for sustainability reporting, the Global Reporting Initiative (GRI) has highlighted various dimensions of sustainability, (i.e. economic, social and environmental dimensions), which are to be included and disclosed within reporting activities. The multidimensional nature of sustainability reporting and the need for integrating financial and non-financial performance within the same report has also been emphasized by the International Integrated Reporting Council (IIRC). Considering its recent international growth and the relevance of its application to this area of research, Section 2.4 will explore more in depth the evolution and structure of the international integrated reporting framework issued in 2013.

The following paragraphs explore the relevant international initiatives and institutions that regulate the reporting of sustainability since its initial definition in 1987.

2.3.1. SustainAbility

SustainAbility was founded in 1987 by John Elkington, the creator of the so called "Triple Bottom Line" (TBL). Since the early 1990s, SustainAbility has been involved in corporate sustainability reporting, by focusing mainly

on green consumerism and human rights, while evolving the concept of the TBL and helping companies engage with external stakeholders. The growing popularity of the TBL approach, and the authority gained by SustainAbility in the 1990s and continuing in the 2000s, both became key drivers towards the definition of sustainability as an integration of economic, environmental, social and economic aspects.

The notion of TBL was originally coined in 1994 and articulated by John Elkington in his 1997 book – *Cannibals with Forks: The Triple Bottom Line of 21st Century Business* – with the aim of balancing economic, social and environmental issues within organizational reporting in order to demonstrate their contribution to social and environmental responsibility. According to Elkington (1997), the TBL approach aims at guiding organizations to achieving a balance of economic, environmental and social issues. The traditional bottom line of the profit and loss account is not enough to take account of the full cost involved in doing business. So, through TBL, organizations are encouraged to add two bottom lines beyond the common measure of corporate profit to measure their social and environmental impact.[5]

From 1994 onwards, SustainAbility and the United Nation's Environmental Programme (UNEP) have collaborated together, through programs and publications, to explore a wide range of corporate sustainability challenges and develop guidelines. In particular, they developed the so called "Global Reporters Program", which produced several surveys on international corporate environmental and social reports, on the basis of an "ad hoc" benchmark tool used to interrogate the content of these reports. The benchmark tool produced by the UNEP/SustainAbility group has been revised several times since its development, making a few alterations to account for new developments in reporting (Chapman and Milne, 2003).

The earliest SustainAbility surveys covered environmental reporting, while only briefly exploring social issues. Then in 2000, the methodology underwent a significant revision. As part of the Global Reporters Methodology, SustainAbility took into account a growing consensus regarding various elements of economic, social and environmental reporting as it was emerging through the Global Reporting Initiative and various other corporate sustainability initiatives.

Although some difficulties have been identified with the UNEP/SustainAbility criteria, and although these criteria are being arguably sur-

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[5] The traditional bottom line is the profit and loss account. The second bottom line considers how socially responsible an organization has been throughout its operations. The third measures how environmentally responsible an organization has been.

passed in terms of providing reporting guidance by the Global Reporting Initiative's frameworks and guidelines (which will be explored later in Paragraph 2.3.3), SustainAbility has been, and continues to be, an important element in the context of global sustainability reporting.

2.3.2. Institute of Social and Ethical Accountability (AccountAbility)

Established in London in 1995, the Institute of Social and Ethical Accountability (also known as AccountAbility) is a non-profit organization that brings together members and partners from business, civil society and the public sector worldwide. AccountAbility is a self-managed partnership, governed by its multi-stakeholder network and aims to promote accountability for sustainable development by developing innovative accountability tools and standards, most notably the AA1000 Standards series. From 1995, the Institute of Social and Ethical Accountability has developed a research network that studies and explores best practices in reporting for practitioners and policy-makers in organisational accountability, promoting accountability guidelines across professions as well as securing an enabling environment in markets and public policy. The first draft of the AA1000 standards was launched in 1999 to improve the accountability and overall performance of organisations by increasing quality in social and ethical accounting, auditing and reporting.[6]

According to AccountAbility, AA1000 standards comprises principles and a set of process standards. The process standards cover five main stages: Planning; Accounting; Auditing and reporting; Embedding; and Stakeholder engagement. In 2003, the Institute of Social and Ethical Accountability issued the first edition of the *AA1000 Assurance Standard* with the aim of assuring the credibility and quality of sustainability performance and reporting. The development of the AA1000 standards took over two years and involved hundreds of organizations, from professions, investment community, non-governmental organisations (NGOs), labour and business. The 2003 edition of the AA1000 standards, which superseded the first 1999 draft, was supported by a Guidance Note regarding the application of the principles and a User Note including some case studies on the application of the principles during assurance engagements. The 2008 edition of the AA1000 represents the second edition of AccountAbility's assurance standard. It draws on the growing body of practice and experience in sustainability assurance and supersedes all previous versions published by AccountAbility.[7]

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[6] http://www.accountability.org/standards/

[7] https://www.accountability.org

In this regard, the second edition of the AA1000 standards focuses on the processes by which companies report on their impacts. This focus is based on the premise that unless, for example, corporate values are embedded, and unless governance systems, data collection systems, reporting mechanisms and audit processes are sound, reporting is unlikely to be representative of performance or reflect the information that stakeholders need.

2.3.3. The Global Reporting Initiative

One of the most influential international associations that provides guidelines for sustainability disclosure is the Global Reporting Initiative (GRI). The GRI was founded in Boston in 1997 as an initiative of the Coalition for Environmentally Responsible Economies (CERES), the Tellus Institute and the United Nations Environmental Programme (UNEP). The GRI is a long-term international initiative supported by multiple stakeholders, which aims to integrate sustainability within organizational decision-making processes and to empower decision makers through GRI's sustainability standards and multi-stakeholder network.

In 2000, the GRI launched the first set of Sustainability Reporting Guidelines. A revision process was then undertaken over the following two years, which culminated in the disclosure of the second generation of the Guidelines (G2) unveiled at the World Summit on Sustainable Development in Johannesburg. The 2002 Guidelines document presents a set of principles for the preparation of a GRI-based report. These Guidelines are for voluntary reporting and aim to assist organizations in representing a balanced picture of the economic, environmental, and social dimensions of their activities, products, and services.

Considering the increasing international interest in sustainability issues, the GRI launched its third generation of guidelines (G3) in 2006. Concurrently, the GRI launched a first version of the XBRL taxonomy for G3. Since 2008, the GRI released specific guidelines for a series of organizations and sectors (i.e. Financial Services, Electric Utilities, Mining and Metals, Airport Operators, Construction and Real Estate, Oil and Gas, Media, and Event Organizers).

Then in 2013, the GRI released the fourth generation of its Guidelines, G4, offering Reporting Principles, Standard Disclosures and an "Implementation Manual" for the preparation of sustainability reports by organizations of any size or sector. One of the aspects of the G4 guidelines is the materiality determination process, which outlines the four main phases of the process for determining the most relevant aspects that need to be included in a sustainability report (Identification, Prioritization, Validation and Review). The idea of sustainability as a multidimensional concept emerges clearly from

GRI's G4 Sustainability Reporting Guidelines – Reporting Principles and Standard Disclosure (2013), which highlights that "a sustainability report conveys disclosures on an organization's impacts – be they positive or negative – on the environment, society and the economy" (p. 3).

2.3.4. The Global Compact

The United Nation Global Compact (UNGC) was inspired by UN Secretary-General Kofi Annan during the World Economic Forum (WEF) in 1999 in Davos, Switzerland, where he challenged the top leadership of the worldwide business community to enact a Global Compact between the United Nations and the business community towards the observance of human rights, improvement of labour conditions, and protection of the environment.

The UNGC networks align business operations and strategies by following ten main principles, which focus on human rights, labour rights, environment protection, and anti-corruption (UNGC, 2011). In addition to making the principles an integral part of the business strategy and corporate reporting, local networks ask organizations to participate in the achievement of broader UN development goals, such as the Sustainable Development Goals.

Launched in July 2000, the UNGC is a leadership platform for the development, implementation and disclosure of responsible and sustainable corporate policies and practices. Endorsed by chief executives, the global compact is one of the largest voluntary sustainability initiatives, with 7,000 corporate participants in 135 countries, it also has 36,900 business participants, 9 governmental organizations (NGOs), governments and academic institutions. In particular, the UNGC platform embraces over 100 multi-stakeholder local networks (one per country), which are led by businesses with the aim of supporting organizations and creating opportunities for further engagement and collective action towards sustainable development.

The UNGC seeks to combine the best properties of the UN, such as moral authority and convening power, with the private sector's solution-finding strengths and resources, and the expertise and capabilities of other key stakeholders. The UN Global Compact offers a platform through which multiple stakeholders may interact to achieve sustainable development.

2.3.5. The Sustainability Accounting Standards Board

Founded in 2011 and based in the USA, the Sustainability Accounting

Standards Board (SASB) is a 501(c)3 [8] non-profit organization that aims at establishing industry-based sustainability standards for the recognition and disclosure of the most material environmental, social and governance impacts by companies that are traded on U.S. stock exchanges. The SASB validates the use of critical aspects of corporate sustainability performance for decision-making, supporting companies, investors, regulators and the public in addressing environmental, social and governance issues. [9]

SASB's vision is to share an understanding of corporate sustainability performance that would enable companies and investors to make informed decisions that would improve their outcomes on sustainable development issues.

In this regard, SASB aims to analyse the links between sustainability and financial performance through the concept of "materiality." Furthermore, the SASB has identified five broad categories of environmental, social, and governance (ESG) issues that can affect an organization's financial performance and, therefore, be highly material to investors. The materiality determination process cannot be fixed and varies from one industry to another.

From its infancy, SASB has developed a methodology for determining industry-specific non-financial material issues to which they have associated tailored performance indicators, derived from indicators that were already in use by companies. This methodology employs three main phases. During phase one, SASB's research team analyses the investor and economic impact of industry-specific material sustainability issues. Issues are then represented in a materiality map and are scaled, based on interest, financial impact, and a forward-looking adjustment (for emerging issues). As explained by Eccles and Serafeim (2013), each map prioritizes 43 ESG issues, ranking their materiality for a given industry on a scale from 0.5 to 5, with 5 being the most material. The higher the score for an issue, the greater its probable impact on an organization's financial performance (Eccles ad Serafeim, 2013). At the end of the first phase, an industry brief is issued, containing disclosure items and accounting metrics. Phase two involves the collection of feedback from over 2000 participants, such as corporations, market participants, public interests, and intermediaries, which are represented in an industry work-group. Their feedback informs an exposure draft standard containing accounting metrics

[8] According to IRS Publication 557, in the Organization Reference Chart section, the 501(c)3 correspond to the following type of organization: Religious, Educational, Charitable, Scientific, Literary, Testing for Public Safety, to Foster National or International Amateur Sports Competition, or Prevention of Cruelty to Children or Animals organizations.

[9] http://www.sasb.org/

and technical protocols for each material sustainability issue. In phase three, the exposure draft is released for a 90-day public comment period, and then the feedback collected is incorporated into the standard. Feedback is accepted for one year, at which time SASB releases an update and the standard is made available to the public.

By 2016, SASB had developed material maps and sustainability accounting standards for 10 sectors and over 75 industries.

2.3.6. The International Integrated Reporting Council (The IIRC)

The International Integrated Reporting Council (IIRC) is the most recent initiative that has been created by professional bodies and business-oriented networks to engage organizations in integrating financial and non-financial information, as well as economic, social and environmental reporting issues (Brown and Dillard, 2014). Launched in 2010, and formerly known as the International Integrated Reporting Committee, the IIRC was formed by the coalition of the Prince's Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI). The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, accounting professionals and Non-Governmental Organizations (NGOs).

The IIRC's mission is *to establish integrated reporting (IR) and thinking within mainstream business practice as the norm in the public and private sectors*. In particular, the IIRC aims "to align capital allocation and corporate behaviour to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking". [10] In September 2011, the IIRC released a Discussion Paper (DP) entitled, "Towards Integrated Reporting – Communicating Value in the 21st Century", which was a collection of suggestions and responses from producers and users of reports to be used as a basis for the development of the International Integrated Reporting Framework. This feedback was from a number of businesses and investors who had the opportunity to test the applicability of the principles, content and concepts of Integrated Reporting by taking part in a Pilot Programme that underpinned the development of the International IR Framework in the three years prior to September 2014. The IR Business Network had been created to promote integrated thinking among participants and give them the opportunity to access resources and expertise, to network with leading businesses, to gain relevant industry sector and expert perspectives, as well as share experiences and practices. Other networks cover the public sector, pension

[10] http://integratedreporting.org/the-iirc-2/

funds, technology, banking, accountants, academics, insurance and investors.

Following an analysis of the responses to the 2011 Discussion Paper, the IIRC released the first draft of the Integrated Reporting Framework on 11 July 2012. This draft was superseded by the Prototype IR Framework that was released in November 2012. During the development of the International Integrated Reporting Framework, the Technical Task Force of the IIRC organised Technical Collaboration Groups (TCGs) to prepare a series of Background Papers on the fundamental concepts (e.g. Value Creation, Capitals, Business Model) and Principles (e.g. Connectivity and Materiality) of IR. The background papers were produced in collaboration with the participants of the TCG, which were coordinated by lead organizations from a range of disciplines and countries. The IIRC considered interim findings from the TCG when preparing the Prototype Framework, released in November 2012, and considered aspects of this paper in developing its Consultation Draft of the IR, which was released on April 16th, 2013. After considering comments from stakeholders on the draft, the IR framework was issued in December 2013.

The framework provides the fundamental concepts, guiding principles, and content elements that govern the overall content of an integrated report. It does not focus on rules for measurement, disclosure of individual matters or on the identification of specific key performance indicators. Instead, the IR framework is principles-based rather than standards-based and is driven by integrated thinking. The idea is to recognize the wide variation in individual circumstances of different organizations, and at the same time, enable a sufficient degree of comparability across organizations (Busco *et al.*, 2013a).

The following section explores in detail the evolution of integrated reporting.

2.4. Integrated reporting

Originally labelled as "One Report" by Eccles and Kruzs (2010), the stated goal of IR is to provide information on financial and non-financial performance and their influence on organizations' value creation process in a single document (Owen, 2013). Integrated Reports include both qualitative as well as quantitative data, with the aim of offering a clear vision of an organization's business model, strategy, risk management and sustainable development (Adams, 2014; Busco *et al.* 2013a; 2013b; Dey and Burns, 2010; Owen, 2013).

According to the framework, an integrated report should provide concise information about how an organization's strategy, governance, performance, and prospects, in the context of its external environment, lead to the creation of value over the short, medium, and long term (IIRC, 2013 p. 33). An integrated report aims at describing the most material issues that affect an organisation and at enhancing accountability and stewardship, with respect to a base of six kinds of capital, or "capitals" (financial, manufactured, intellectual, human, social and relationship, and natural) (IIRC, 2013 p. 2). It provides information that fulfils the requests of a broader range of stakeholders (e.g. employees, customers, suppliers, partners, local communities, regulators, and policy makers), which are also interested in the organization's ability to create value over time (IIRC, 2013 p. 2). In particular, Busco *et al.* (2013a) highlights that an integrated report is not intended to be a set of multiple isolated pieces of performance information. Instead, it aims at embracing and connecting material information on financial and non-financial performance in order to show how value creation depends on multiples sources of capitals.

Although IR does not explicitly refer to sustainable development (Flower, 2015), it does focus on environmental, social and economic issues. In this regard, the IR framework, in Clause 2.39 explains that:

> [IR] supports broader societal interests by encouraging the allocation of financial capital to reward and support long-term, as well as short- and medium-term value creation within planetary limits and societal expectations (IIRC, 2013 p. 16).

Stacchezzini *et al.* (2016) argue that IR aims to extend the short-term focus of traditional corporate reporting to deal with a broad range of issues, resources and relationships considered material for an organization's long-term success and viability.

These issues, resources and relationship are described in depth through the Fundamental Concepts, Guiding Principles, and Content Elements issued by the International IR Framework in 2013. The following subsections provide a description of the fundamental concepts contained in the framework and then explores the guiding principles and content elements that should be debated throughout the process involved in the preparation of an integrated report.

2.4.1. Fundamental concepts

According to the International IR framework, an organization's value creation process is influenced by the external environment; created through re-

lationships with other stakeholders; and, is dependent on the availability of various resources (IIRC, 2013 p.10). Consequently, IR seeks to provide insights about the external environment that affects an organization, the resources and relationships used and affected by the organization (e.g. capitals), as well as the way in which the organization interacts with the external environment and the capitals to create value over the time (IIRC, 2013 p.10). The fundamental concepts on which the integrated reporting process is built are (1) the capitals that an organization uses and affects, and (2) the value creation process.

According to the framework, all organizations depend on a different set of capitals, described as the stock of value that is increased, decreased or transformed through an organization's value creation process (IIRC, 2013 p.11). Six kinds of capitals are generally involved in the value creation process and can be classified as follows: financial, manufactured, intellectual, human, social and relationship, and natural capital. These are not fixed, rather they should be tailored according to the organization's value creation process and they ensure that an organization does not overlook a capital that it uses or affects (IIRC, 2013 p.12).

The second fundamental concept that lies at the heart of IR is the value creation process:

> "Value created by an organization over time manifests itself in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs" (IIRC, 2013 p. 10).

The framework focuses on how an organization's value is manifest, not only in financial returns to providers of financial capital, but also in positive or negative effects on other capitals and other stakeholders (Busco *et al.* 2013a). The Business Model is the core part of the value creation process, and is represented as a chosen system of inputs, business activities, outputs and outcomes (IIRC, 2013 p. 13).

In Figure 2.3, the six types of capitals described above are both inputs and outcomes of the overall organization's business model. However, these capitals and their values do change over time, as they are increased, decreased or transformed through the activities and outputs of the organization.

The next section considers the guiding principles that underpin the presentation and preparation of an Integrated Report.