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Sustainability Reports: What Do Stakeholders Really Want?

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EXECUTIVE SUMMARY

Management accountants are becoming more involved in corporate sustainability reporting as companies rapidly ramp up their efforts in this area. Yet what sustainability means—and what reports should cover—depends on whom you ask. Consumer stakeholders view corporate sustainability differently than companies do, so current reports may not be what all corporate stakeholders want.

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Companies are increasingly spending time and effort reporting their sustainability activities. Some organizations report mainly on environmental issues. Others, however, see sustainability as a multidimensional concept, so they also report on economically and socially responsible activities. This view of sustainability is often called the three-legged stool or the triple bottom line.

Are these sustainability reports giving stakeholders what they *really* want? And do stakeholders think about sustainability the same way corporations do? We conducted some research to find out.

Accountants Are More Involved

Management accountants are getting more involved in developing and presenting sustainability information as sustainability practices become increasingly important and assurance for sustainability data is more common. Also, top management is recognizing that accountants' education, skills, and rigor are especially valuable for preparing and presenting sustainability information.

Report content varies widely. Some reports are glossy marketing brochures posted on companies' websites and used for marketing propaganda. Other reports are more rigorous. Some companies use their own reporting criteria or follow national reporting criteria. But many companies use the criteria developed by the Global Reporting Initiative (GRI), an international not-for-profit organization that promotes the use of sustainability reporting. The GRI is a network of thousands of professionals and organizations from many industries, regions, and constituencies. Its reporting criteria are most notable and pervasive. The GRI suggests—but does not mandate—approximately 80 indicators (activities) for companies to report on in six different dimensions (see Table 1). These dimensions represent the six categories of corporate activities judged to fulfill corporate responsibilities implied by triple-bottom-line reporting. Many companies register their sustainability reports with the GRI, and the reports are stored in a sustainability disclosure database that provides access to an abundance of voluntarily reported company sustainability information.

Because the indicators are merely suggestions, companies are not uniform in which sustainability activities they report. And companies that do not register also release sustainability reports. It is hard to compare GRI-compliant reports, let alone all the other reports from unregistered companies. Also, there are many self-declared reports, which are not checked by a third party. Current trends and efforts by companies as well as organizations with regulatory oversight provide a strong indication that companies are moving from self-declared verification to voluntary third-party verification of sustainability information with mandated verification by regulators on the horizon. Then it will become even more imperative that accountants have a deep understanding of corporate sustainability and use their expertise to ensure accurate information.

Table 1: GRI Dimensions

1. Society
2. Economic
3. Labor
4. Environment
5. Product Responsibility
6. Human Rights

The GRI and other organizations have prescribed guidelines specifying which corporate sustainability activities belong in each sustainability dimension. But there is a lack of research determining whether prescribed activities and dimensions match stakeholders' priorities. Which activities do stakeholders feel belong in each dimension—or in completely new dimensions? Are there other activities even more important to stakeholders? Do organizations' corporate sustainability narratives match those of their stakeholders? Most important, is there a shared understanding of corporate sustainability? Before we can answer these questions, we must understand both the corporate and stakeholder views of sustainability. Sustainability reports can be meaningful only if preparers and readers share a common understanding of the subject's parameters.

What Is the Corporate View?

To determine the corporate view of sustainability, we performed a thorough analysis of a sample of corporate sustainability reports because they provide public insight into an organization's sustainability impact. We selected a cross section of U.S.-based companies in 15 different industries, including industries considered first movers and those considered lagging in sustainability practices. All of these companies had registered a report with the GRI. We read each report to determine which sustainability activities were being performed, and, after analyzing the reports' contents, we identified a total of 476 sustainability activities reported across the 15 companies. Most of these activities were in line with the GRI dimensions, but various sustainability activities were not. We classified those additional non-GRI activities in our report analysis as risk avoidance or compliance activities.

Because companies frequently use similar statements when addressing a given issue, the list of 476 activities contained many duplicates. For example, one report stated that "the company continually improved its safety practices, processes, and performance," while another company stated that it "performed daily safety walkthrough in facilities to identify and correct any problems." We identified these two descriptions as being the same sustainability activity of "improving employee safety," which comes under the GRI Labor dimension. After eliminating these duplicates, we had a much smaller list of 145 unique sustainability activities. Most of these activities fell in the Society dimension, followed by those in the Economic and Labor dimensions. The least number of activities were reported in the Human Rights dimension.

The GRI dimensions listed in Table 1 are in order from greatest to least number of activities according to our analysis. A plausible explanation for why Society has the most activities is that companies likely want to be viewed as beneficial to society despite each firm's many characteristics—which can include its industry, the different societies in which it operates, and management's political or moral philosophy about what constitutes a good society. On the other hand, not all firms imagine they have a proactive role to play in improving the state of human rights or that their actions can have any significant effect on the issue of human rights around the world.

What Is the Stakeholder View?

Analyzing the corporate sustainability reports provided a good understanding of the corporate view of sustainability. Our next task was to understand the stakeholder view. In this case, we focused on consumers, one of the main stakeholder groups. We engaged a group of 28 people knowledgeable about sustainability reporting to sort the 145 unique activities into the GRI dimensions where they belonged. For some activities, the participants disagreed considerably about which GRI dimension was most appropriate. Those activities for which 50% or more of the 28 raters agreed on the GRI dimension were selected as good indicators for that dimension. This produced a reduced set of 71 activities that best represented the GRI dimensions. Using a pilot sample of 94 respondents, we conducted a factor analysis that further reduced the 71 activities to a final set of 61 essential activities. These are activities that best represent the types of activities that consumers regard as important to corporate sustainability.

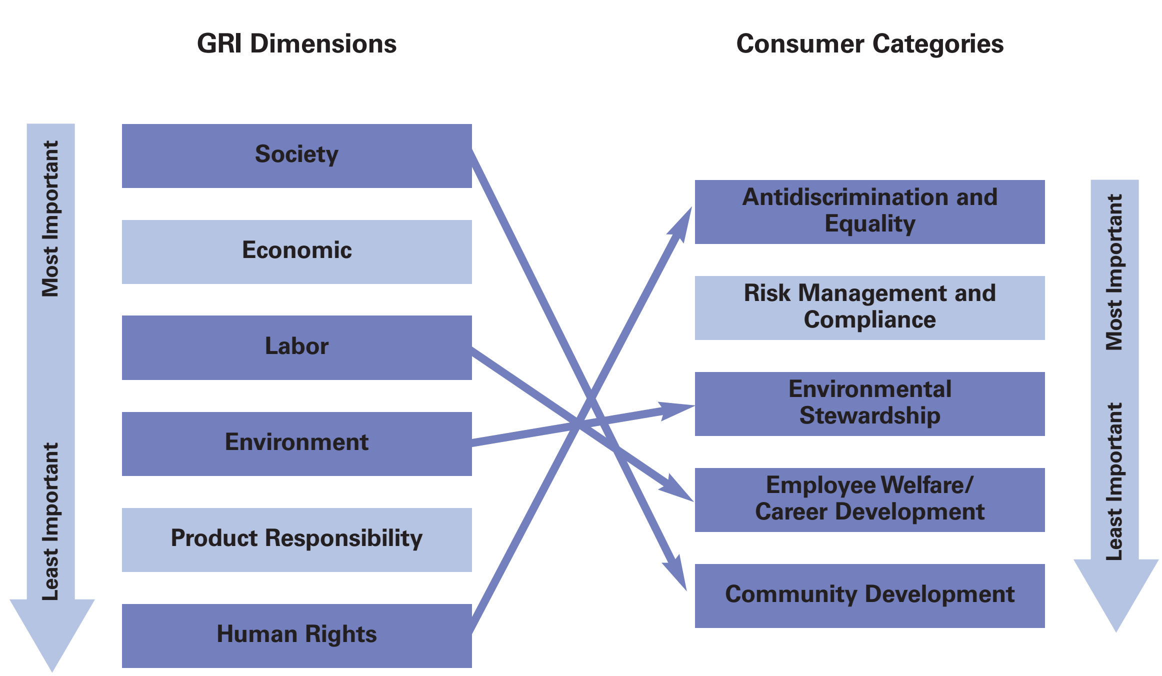
This set of 61 activities was the subject of a survey we administered online to those belonging to business groups. About 80% of those surveyed are IMA® (Institute of Management Accountants) members. The sample also included MBA students in a sustainability course, colleagues of the authors, and post-MBA students. We asked respondents to complete the survey by assuming the perspective of a consumer. Specifically, we asked them to use a five-point scale, where 1 = not at all important and 5 = very important, to answer the following question for each activity: "How important do you think this activity is to an organization achieving corporate sustainability?" We received 505 usable responses, and they revealed some interesting differences between the corporate view of sustainability and that of a stakeholder group of consumers.

A statistical analysis of the survey activities revealed that our respondents grouped the 61 sustainability activities into five distinct, significant categories that differ somewhat from the GRI dimensions. This suggests that our 505 consumers have a different concept of corporate sustainability than that implied by the GRI dimensions. Consumers interpret corporate sustainability activities differently than do both the GRI and companies that use the GRI dimensions to organize their reports (see Figure 1).

The arrows in Figure 1 show how the GRI dimensions and our new consumer categories of sustainability correspond. Note that the GRI's Economic dimension is not a significant category to our survey respondents. Also, survey respondents believe the only essential Product Responsibility activity is "actively investigate regulatory and safety-related issues with products and promptly remove from all avenues if necessary." In addition, a new category not included in the GRI dimensions emerged. We labeled it Risk Management and Compliance. Many firms now report their risk management and compliance activities to show they are trustworthy and are playing by the rules. In our survey, consumers deemed these activities important for identifying a responsible, sustainable corporation. It is key to note that our respondents considered managing risk in products to be important.

We also identified a category called Environmental Stewardship, which is based on the essential activities consumers associated with this topic. Environmental Stewardship is consistent with the GRI's Environment dimension. For example, survey respondents consistently grouped items such as prohibiting uncontrolled release of pollutants and reducing landfill waste as im-

Figure 1: How the GRI Dimensions Correspond to the Consumer Categories Created by Survey Respondents



portant to Environmental Stewardship (see Table 2 for the top-ranked sustainability activities according to survey respondents). Society is a major dimension in the GRI scheme, but after repeatedly asking respondents which items are the essential activities, we arrived at a category better labeled Community Development. This category represents the belief that corporations have an obligation to be good citizens, contributing to the greater local good. This is seen as a distinct responsibility and an end in itself, just as a person is expected to be a good citizen irrespective of any gain that brings. Activities within this group include social development in local communities, donating to charitable causes, investing in community-based sports programs, investing in low-income housing, and so forth. It is interesting that survey respondents were more concerned with a corporation investing in their immediate community rather than overseas. Income level also affected the perceived importance of the activities within that category: Higher-income respondents rated these activities as being less important to corporate sustainability than did lower-income respondents.

We also found that the GRI's Labor dimension was represented in our survey results by a group of labor-related activities that were better categorized as Employee Welfare/Career Development—that is, the belief that enabling employees through training and greater efforts to inform them is the way to treat employees responsibly. Sustainability items that surfaced as important to this category included corporations offering leadership training within the company, measuring employee satisfaction, rotating employees' jobs, allowing employees to go on sabbatical, and giving employees opportunities for career development. Respondents did not view this category as important as the GRI report activities would suggest it is. Also in the

Table 2: Top-Ranked Sustainability Activities According to Survey Respondents

Sustainability Statement	Mean*	Consumer Category
Prohibit the use of child, forced, or involuntary labor	4.60	Antidiscrimination and Equality
Ensure all customers are treated fairly and consistently	4.37	Antidiscrimination and Equality
Support and obey laws that prohibit discrimination everywhere in places the company does business	4.33	Antidiscrimination and Equality
Develop effective processes to prohibit the uncontrolled release of pollutants (e.g., wastewater, sulfur dioxide, and nitrous oxide)	4.32	Environmental Stewardship
Actively investigate regulatory and safety-related issues with products, and promptly remove from all avenues if necessary	4.28	N/A
Save tons of paper and plastic through packaging and shipment redesigns, reducing landfill waste	4.26	Environmental Stewardship
Increase company recycling rate	4.17	Environmental Stewardship
Use responsible sales and marketing to carry clear information to the customer	4.14	N/A
Realize throughput improvement, cycle-time reduction, and improvement in on-time delivery because of manufacturing improvements at company facilities	4.13	N/A
Perform self-audits to ensure compliance with company-wide standards	4.06	Risk Management and Compliance
Incorporate green design standards and building concepts into the construction of company facilities	4.02	Environmental Stewardship
Actively promote gender equality and diversity in the workplace	4.01	Antidiscrimination and Equality

*Mean calculated on a scale of 1 (not important) to 5 (very important).

survey, the Human Rights dimension emerged as a category better called Antidiscrimination and Equality. Particularly important to survey respondents were statements about ensuring all consumers are treated fairly and consistently; prohibiting child, forced, and involuntary labor; providing human rights education for employees; and promoting gender and diversity equality in the workplace.

With regard to the importance of each consumer-identified category, Figure 1 lists the categories in order from most important to least important, based on mean responses to particular activities. Respondents placed the most importance on Antidiscrimination and Equality, then Risk Management and Compliance. They placed the least importance on Community Development. This finding highlights the misalignment between the sustainability information revealed in public reports and the sustainability information consumers value.

If we consider the individual sustainability activities we asked consumers about, we continue to see a mismatch between what is important to consumers and what corporate sustainability reports emphasize. Table 2 presents the top-ranked sustainability activities as revealed in our study. It also shows the mean responses based on the five-point scale and the categories to which the activities belong. The three activities viewed as most important by consumers are part of the Antidiscrimination and Equality category. This is analogous to the GRI's Human Rights dimension, which had the least number of items in the reports we analyzed. Clearly, companies need to take heed and consider these important stakeholder opinions. Firms should start investing in and reporting on more activities that address Antidiscrimination and Equality. Several of the top 10 most important activities according to the 505 consumers are part of the Environmental Stewardship category. That is not surprising because most people think of the environment when they consider "sustainability." Consumers are very interested in companies obtaining some level of assurance on sustainability data because they rated compliance self-audits among the top 10 most important activities. Also, several statements that do not fall into any particular category made it to the top-ranked list. These statements concern protection of the consumer and efficiency of operations.

Our analysis further uncovered a significant difference between women and men who completed our survey. Of the respondents, 55% are men and 45% are women. When comparing their responses, the data reveals that women believed nearly 70% of the activities are more important to achieving sustainability. Interestingly, women viewed every activity in our Environmental Stewardship and Antidiscrimination and Equality categories as being more important to achieving sustainability than did their male counterparts. These findings suggest that women are more likely to buy products and shop with companies that report highly on these two dimensions. Perhaps marketing tailored to women should stress these activities.

Differing Views

We learned that companies engage in activities they believe help achieve the sustainability goals defined by the GRI categories. But consumer stakeholders do not interpret the actions in the same way. Therefore, consumers' narratives about corporate sustainability are different in some respects from those of the GRI structure. While certain activities are categorized by the GRI along the six dimensions, when our survey respondents clustered activities by similarity, they created different categories and were not interested in some of the GRI dimensions. What this shows is that when people determine how these activities group together to accomplish specific sustainability goals, these goals are somewhat different from the GRI goals.

Therefore, our findings suggest that the definition of sustainability is still in a state of flux. The GRI and other organizations have tried to add structure to the concept of sustainability, but corporations and stakeholders still do not agree on what sustainability really means. ■

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