

Chapter 7

Sustainability Reporting and Financial Reporting: The Relevance of an Integrated Reporting Approach

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EXECUTIVE SUMMARY

In the business world, there are issues such as globalisation, environmental awareness, and the rising expectations of public opinion which have a specific role in what is required from companies as providers of information to the market. This chapter refers to the current state of corporate reporting (financial reporting and sustainability reporting) and demonstrates the need for evolution to a more integrated method of reporting which meets the stakeholders' needs. This research offers a reflection on how this development can be achieved, which notes the ongoing efforts by international organisations in implementing the diffusion and adoption, as well as looking at the characteristics which are needed for this type of reporting. It also makes the link between an actual case of a company that is one of the world references in sustainable development and integrated reporting. Whether or not the integrated reporting is the natural evolution of the history of financial and sustainability reporting, it still cannot yet claim to be infallible. However, it may definitely be concluded that a new approach is necessary to meet the needs which are continuously developing for a network of stakeholders.

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ORGANIZATIONAL BACKGROUND

The recent global crisis has raised a number of questions about the functioning of capital markets and extent to which current business reporting mechanisms reveals systemic risks and actual business costs. It is becoming increasingly evident that the long-term success of an organization is equally dependent on traditional business practices as well as macroeconomic factors such as human rights, working conditions and environmental stewardship (Carrol & Buchholtz, 2011). Therefore in reaction to globalization, increased environmental awareness and mounting cry from the public for transparency and accountability, companies are increasingly required to provide information to the market beyond that of the long-established balance sheet (Oyhanarte, 2012).

The debate on corporate responsibilities and accountability started back at the beginning of 20th century. “The idea about the ‘socially responsible corporation’ which emerged in the 1930s and rose to prominence in the decades after the Second World War was markedly more radical than contemporary ideas about corporate social responsibility (CSR)” (Ireland & Pillay, 2010, p. 77, as cited in Monciardini, 2012). Going back to that period, CSR was more linked to questions such as the governance of the company, the principle of shareholder primacy and the corporate duties to its employees, consumers, creditors and to society. Nowadays and for the last decades, the approach has changed and corporate sustainability has realigned its concerns – it became shareholder-centred.

The way of reporting also changed. From the beginning of the 21st century sustainability reporting became more significant, which reflected in a clear growth in voluntary corporate sustainability reporting and in the success of global regulatory networks, such as the Global Reporting Initiative (Monciardini, 2012). The 21st century has seen a significant growth in corporations voluntarily reporting sustainability initiatives. This is evidence by the success of global regulatory networks/agencies such as the Global Reporting Initiative.

While business reporting becoming increasingly long and detailed, the information is biased towards financial data, accompanied by a proliferation of stand-alone sustainability reports. However, these developments have occurred in a disconnected way. In spite of the extensive disclosure, they have not been able to demonstrate, in an integrated way, the interdependence of critical points in the performance of organisations, particularly regarding the interactions between financial and non-financial factors.

Stakeholders need a more concise, less extensive and integrated type of reporting – something that brings together detached and disconnected reports disclosed by the company, a document that collects information about corporate governance and business sustainability, not simply concatenating them, but presenting them in such a way that the connections between these two dimensions are evident.

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