

Sustainability reporting by companies: reasons and financial benefits

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Abstract

Sustainable development is one of the most promising concepts for the future of the society. Companies are an important participant in numerous social processes, and their sustainability is integral to the sustainability of the society. During the last three decades the number of companies preparing sustainability reports has increased. A lot of stakeholders and regulators pay already attention to this type of reporting. At the same time, there is a growing scientific interest in this field. Even though in recent years the number of regulatory acts that mandate certain companies to disclose environmental and social information has increased, the sustainability reporting is still mostly voluntary. This article attempts at summarizing and analyzing the causes that motivate companies to prepare a sustainability report, by reviewing existing literature and completed studies. A total of 14 main reasons have been found. Some of them are external, others are internal to the companies. The reasons may be economic, mainly related to the willingness of companies to improve the competitiveness of the company, but also non-economic, related to the value system of a top member of management or an owner, and the willingness to do good. All the reasons have been subsequently analyzed through the lens of the companies' competitiveness.

Keywords: reporting, sustainability, competitiveness.

Introduction

In the past three decades, sustainable development has gradually established itself as one of the leading concepts for future societal development. In the time of accelerating climate change and environmental problems, pandemics and increasing social inequality, sustainability appeals toward a future based on economic development, environmental protection, and social justice.

The creation of the modern concept for sustainability is related to the activity of the Brundtland commission, also known as the World Commission on Environment and Development (WCED) and the report published by it in 1987 – “Our Common Future”. In this report, the Commission defines sustainable development as:

“development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987, p. 27).

Companies are a major participant in social processes in modern society, and therefore their sustainability is integral to the sustainability of the public in general. The companies' sustainability connects economic results, social approach and policy regarding the environmental protection. The three main pillars are economic development and management of the social and natural capital.

In scientific and business circles, the debate whether a company must be managed with the sole purposes of maximizing the wealth of its

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shareholders, or the interests of other stakeholders should also be considered, has been going on for a long time. On the one hand, there are the supporters of the shareholder primacy theory, the most well-known representative of these supporters being the Nobel prize laureate in economics, Milton Friedman, who writes the following in his article "The Friedman Doctrine: The Social Responsibility Of Business Is to Increase Its Profits", published in 1970 in the New York Times:

"In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible..." (Friedman, 1970).

To counteract these viewpoints, the supporters of the Stakeholder Theory are of the opinion that shareholders are just one stakeholder among many other stakeholders, and the interests of all stakeholders need to be considered when managing a business. Other such stakeholders may be: managers, employees, clients, the local community, etc. In his book, "Strategic Management: A Stakeholders Approach", one of the creators of

the stakeholders' theory, Freeman (1984), argues that a company may achieve long-term success only in case it balances the interests of different stakeholders.

Regardless of this debate, since the start of the 21st century, the proportion of companies that prepare sustainability reports, has continuously been growing. According to a study of KPMG (2017), the proportion of G250 companies that prepare a sustainability report has increased for the period between 1999 and 2017, from 35% to 93%. For the N100 companies, this rate of increase goes from 24% to 75%. For small and medium enterprises, this rate is lower, and it varies significantly in different countries.

The sustainability report is a form of report that informs the stakeholders and the general public regarding the economic, social and environmental impacts, which result from the company activity. Disclosing this information makes companies more transparent, and very often the requirements of the report help them figure out the guidelines that they need to work on to achieve more sustainable development. There are a variety of reasons for preparing a sustainability report but as a result a company can improve its results because of increased sales, improved efficiency and/or reputation, decreased cost of capital and decreased risk.

Material and methods

This article makes a literature review of the opinions of some leading authors on the matter

of competitive advantages of a company that prepares a sustainability report.

Results and discussion

There may be many diverse reasons for preparing a sustainability report. According to Deloitte (2020), there are six main groups of reasons that contribute to the willingness of a company to disclose sustainability information, namely: innovations and creating new opportunities; operational efficiency; access to capital and market evaluation; attracting, engaging and retaining talented employees; differentiation of trademarks; risk mitigation. According to Grüb and Greiling (2015), these reasons for a business may be external and

internal, the internal reasons related to the willingness to gain a competitive advantage, and the external reasons related to the wishes of the stakeholders. Concurrently, studies, such as Bansal and Roth (2000) reveal that public pressure is also part of the important reasons, and Pütter (2017) has found social and cultural differences, studying companies from Western, Central and Eastern Europe.

The reasons for preparing such a report may be economic, mainly related to the willingness of companies to improve the competitiveness of

the company, but also non-economic, related to the value system of a top member of management or an owner, and the willingness to do good, or a combination of the two. Authors, such as Haanaes, Michael, Jurgens and Rangan (2013) outline the role of the value system for managers and owners when making a decision for incorporation of sustainability in the strategy of the company.

Requirements or preferences of clients

Preparing a sustainability report in and of itself demonstrates the intent of a business to put emphasis on social and environmental issues which result from its activity, and the intent of being transparent to its stakeholders. In recent decades there have been changes to the sensitivity of the public towards key environmental and social issues. Therefore, it is not a surprise that clients, individuals, and legal entities are an important incentive for companies in the process of undertaking initiatives related to sustainability, including preparing a sustainability report. Of course, the stimuli differ for companies that do business with consumers (B2C) and for companies that do business with other businesses (B2B). In the B2C segment, sustainable initiatives have an impact on the potential clients by changing their purchasing preferences. Various studies identify this positive interconnection. Creyer and Ross (1997) have conducted quantitative research among parents of school students and reached the conclusion that a company's ethical initiatives have a positive impact on a decision to purchase a product of this company. In a similar study among university students, Trudel (2004) has found that corporate ethics has an impact on purchasing decisions of clients, and that the clients perceive ethical conduct by a company as a major factor in their decisions to buy or not buy any of that company's products.

The market of environmentally friendly, bio, socially responsible and sustainable products has grown significantly over the last decade. In

an article for Harvard Business Review, Whelan and Kronthal-Sacco (2019) have found that 50% of the growth of the consumer-packaged goods market in USA for the period 2013 – 2018 is due to sustainable products. Using data from IRI - a company that processes a large data arrays - obtained from bar code scanning in a large number of fast-moving consumer goods stores, both authors have concluded that the share of sustainable products has increased from 14.3% to 16.6% over the same period, reaching an absolute amount of 114 billion dollars. At the same time the sales of products branded as sustainable grew 5.6 times faster than products not branded as sustainable.

For the B2B segment, large companies often require their suppliers to prepare a sustainability report as well as to take part in different sustainable initiatives. The large multinational companies are under a lot of public pressure regarding their sustainability. This pressure includes control on sustainability of their whole supply chain. Because of this, many large corporations impose serious environmental and social requirements on their suppliers, along with the requirements for quality, price and delivery times. The first line suppliers are usually required to apply the same sustainability requirements to their own sub-suppliers. The sustainability report is often the method through which suppliers demonstrate and prove compliance with the imposed requirements. The importance of management of sustainability of the supply chains is even higher for large multinational companies. A study by Boston Consulting Group (2020) states that the impact on carbon dioxide emissions of the supply chain is more than five times larger than the impact of direct operations of a company. However, the more environmentally friendly supply chains can in the long run turn into significant financial and commercial benefits.

Public pressure on the company by stakeholders

Public pressure by stakeholders is one of the frequently encountered reasons why companies start preparing sustainability reports. A series of authors study the connection between public pressure and sustainable initiatives of companies, in particular writing a sustainability report. Bansal and Roth (2000) are ranking pressure by stakeholders as one of the four main groups of factors, which have an impact on the motivation of companies to improve their sustainability. Public pressure as a justification is more represented in large and visible companies, particularly companies which operate in environmentally sensitive sectors, such as power generation and mining. Herremans and Nazari (2016) study Canadian oil sector companies and have reached the conclusion that the incentive for writing a sustainability report mostly comes from public pressure, and this pressure, through the beliefs of management, results in diverse structuring of internal management control systems.

Various stakeholders can exert public pressure on companies. Rudyanto and Syregar (2017), using a regression analysis and performing an analysis of 123 reports of companies listed on the Indonesian Stock Exchange, have reached the conclusion that pressure by clients has had the strongest impact on the incentives of businesses to prepare a high-quality sustainability report. Pressure by employees also positively correlates with preparing a high-quality sustainable report. Brown and Deegan (1998) describe the strong role of media as a catalyst for disclosing environmental information.

Another source of public pressure are minority shareholders of public companies. The practice of submitting shareholders resolutions during the annual general meetings has been an established practice in the US for many years. With these shareholders resolutions, shareholders are asking management to disclose information regarding company sustainability, or to undertake certain

initiatives in this area. Kalt and Turki (2018) study similar resolutions and their impact on share prices of companies, and they have found that in recent years, in USA there has been a sharp increase of filing resolutions that have had social or environmental issues as their objective. According to the authors, the number of such resolutions in the US has increased from 200 per year to more than 400 per year over the period between 2005 and 2018.

Another stakeholder, using public pressure, is non-governmental organizations (NGOs). In an interesting study of the relationship between NGO and sustainability disclosure, Ceesay (2020) has concluded that NGOs may have major impact on the sustainability discourse through two important actions, namely (1) cooperation partnership; and (2) confrontation tactics.

Regulatory provisions

Adopting new and stricter environmental regulations is an irreversible process in many countries globally. Environmental regulations are adopted both by central authorities and by local authorities, and environmental protection has long had an important place in the agenda of political parties. Regulations, as a reason for writing a sustainability report, have a large impact on public companies and companies of environmentally sensitive sectors, such as power generation or mining. The fulfilment of the requirements of these regulations requires disclosure of the achieved results.

An example of such a regulation is the European Directive 2014/95/EU for disclosure of non-financial information and diversity information by some large enterprises and groups, amending Directive 2013/34/EU, as well as the Guidelines regarding disclosure of non-financial information 2017/C 215/01, published with it. Article 19a, which has been added, mandates large companies in the EU, which operate as public interest entities, and which have more than 500 employees on average, to include in their reports a non-financial statement that contains information regarding the

environmental and social impacts, resulting from the operations of the companies.

In April 2021, the European Commission approved a Proposal for a Corporate Sustainability Reporting Directive. According to this Directive, since the start of 2023 the scope of reporting companies has expanded, and an audit of the reported information is required. New European sustainability reporting standards will become effective as of October 2022.

A large portion of the provisions of the Directive, which is currently in effect, has also been transposed in the Accountancy Law (article 41, 48-52) of the Republic of Bulgaria, and item 22 of the additional provisions of the Accountancy Law lists public interest entities.

Mandatory requirements for disclosure of environmental and/or social information are introduced in many developed and developing economies. In the United Kingdom, according to The Companies (Directors' Report) and Limited liabilities Partnership (Energy and Carbon Report) Regulations 2018, all companies listed on the stock exchange should disclose their global energy consumption and all large companies should disclose their energy consumption and their greenhouse gas emissions within the United Kingdom. In the US, a regulation of the Securities and Exchange Commission, mandates all listed companies to disclose their environmental standards compliance expenses.

According to the report, Carrots & Sticks of UN Environment Programme and KPMG International (2016) in 64 countries examined, out of more than 400 existing tools for reporting sustainability, 65% are mandatory.

Cost of capital

The financial sector is one of the biggest supporters of sustainability of the business. The reasons mostly involve risk management, as climate change would result in serious adverse consequences for insurance companies, banks, and asset management companies. Concurrently, socially responsible investing has been one of the most dynamic developing markets in the financial sector in recent years. According to Global Sustainable Investments

Alliance, the amount of socially responsible investments in 2018 has exceeded 30 trillion dollars. Publication of various sustainable or socially responsible indexes, such as Dow Jones Sustainability Index, iShares MSCI Europe SRI, FTSE Smart Sustainability Series and ETFs, related to them, contribute to the expansion of the potential base of investors in socially responsible companies and decrease of the potential base of investors in companies, which cannot fulfill the environmental or social criteria, included in these indexes. Furthermore, multiple insurance companies, pension and investment funds exclude shares and bonds of companies that pollute the environment or that fail to comply with certain social criteria from their portfolio. As a result, the price of financing through equity or debt for these public companies increases, and their competitive position, compared to their competitors, is diminished. In a wide-ranging study of 2,809 American public companies, published in the Journal of Banking and Finance, Ghoul, Guedhami, Kwok and Mishra (2011) have reached the conclusion that companies with better CSR practices have a lower cost of capital because of two main reasons

1. The investors base of the company. As it has already been mentioned, sustainable companies attract socially responsible investors, and companies that have issues in the environmental or social sector push them away.

2. Risk management. The investors perceive the companies that are irresponsible in a social and environmental aspect as companies that are exposed to higher levels of risk.

In another study of 2020 by Lodh (2020) of MSCI, one of the largest companies, suppliers of financial indexes globally, wherein the companies from the MSCI World (companies in developed countries) and MSCI Emerging Markets (companies in developing countries) indexes have been analyzed, the definitive conclusion has been reached that companies with higher number of ESG points have lower cost of capital. This is valid both for companies from developed and from developing countries. It is also a correct conclusion when reviewing each of the

observed sectors of the economy, such as: energy, industry, healthcare, finance, information technologies, real properties, etc.

Plumlee, Brown, Hayes and Marshall (2015) go a step further to study the quality of sustainability reports and the cost of capital, and they have found association between them, namely that companies which prepare higher quality sustainability reports have a lower cost of capital and a higher corporate value. Concurrently, Guidry and Patten (2010), in a study that examines whether investors find value in the fact that a company has started preparing sustainability reports, reach the conclusion of overall absence of a market reaction to the notice for publishing sustainability reports. At the same time, however, companies with sustainability reports of the highest quality have significantly more positive reactions on the markets, compared to companies which publish sustainability reports of lower quality.

Sustainability reporting results in diminishing the cost of capital. Along with the effect of investors preferences to shares and bonds of sustainable companies, many banks integrate environmental and reputation criteria in their risk management procedures, which results in difficulties in financing companies with irresponsible environmental or social conduct. Report of Ernst&Young (2020) has reached the conclusion that 52% of the banks perceive the changes in environment and climate as a key emerging risk for the next five years, compared to just 37% a year ago. Zhelyazkova (2014) shows that good environmental risk management is a prerequisite for banks, which would like to obtain credit facilities or guarantees from international financial institutions, such as EBRD and IFC.

The venture capital firms are also not lagging behind on this trend. In 2019, 20 leading European venture capital firms, some of which are: NorthZone, Action Capital and Holtzbrink Ventures, together with the Berlin NGO 'Leaders for Climate Action' (LFCA) have drafted a "sustainability clause", which needs to be

integrated by venture companies and all companies, financed by these venture companies in the future. The clause mandates companies that venture capital companies invest in, to measure their own carbon emissions and implement measures for their reduction on an annual basis.

Image and brand

The improvement of corporate image and the positive effect on the brand of a company are among the main reasons for preparing a sustainability report. The positive mutual relationship between them has been studied by many authors. Loh and Tan, (2020) completed a study of the one hundred strongest brands in Singapore and have found positive association between sustainability reporting and the brand value. Their results also demonstrate that the higher quality of reporting results in higher brand value, but there is also an effect of delay, and creating public perceptions requires time.

According to Grubor and Milovanov (2017), there is a connection between sustainability reporting and brand value, because sustainability gives deeper meaning to brand image, therefore stronger emotional connections and differentiation.

In an experimental study of Gräuler, Freundlieb, Ortwerth and Teuteberg (2013), it has been found that good quality sustainability reports have had serious impact on corporate image and the actions of readers, expressed in the purchasing of recommended products, investing, or doing business with the company, which has published the report.

One of the reasons for the positive impact of publishing a sustainability report on a company brand is the intensified and positive media attention on socially responsible companies, according to Cahan, Chen, Chen and Nguen (2015).

Comparison with competitors and sector standards

The fact that competitors prepare a sustainability report may also be an incentive for a company. The role of imitation as a business strategy has been reviewed by many authors,

among which: Posen and Martignoni (2017) and Barney (1991) et al. Deephouse (1999) shows that copying business practices by a company may have a positive impact on that company, because it starts being perceived as more legitimate. Kolk (2010) has studied a panel of Fortune 250 companies and has reached the conclusion that the process of preparing a sustainability report has different dynamics in various sectors of the economy: in some sectors this is already an established practice, while in others this practice is still new.

Measuring the results regarding the set sustainability-related goals

For some companies, writing a sustainability report is the consequence of the goals assigned and initiatives taken in this direction. With this report, they would like to measure the results from their current achievements and compare it with the assigned goals. Some of the existing reporting standards, such as the Global Reporting Initiative (GRI), provide a good framework for such measurement.

Improving efficiency

Many of the issues, related to the sustainability of a company, are resolved by efficiency improvement of certain activities within the company. For example, standards, such as GRI, require annual measurement of energy expended, and even disclosure of the diminishing energy needs for the goods and services sold, which have been reached during a reporting period. Because of this, publishing a sustainability report often becomes a catalyst for improving the energy or resource efficiency of the company. Ungar and Whitlock (2020) analyze the reports of 30 Fortune 500 companies and look for signs of improved efficiency. They reach the conclusion that all reports reviewed describe certain energy efficiency actions in four main sectors:

- The company facilities and operations
- Transportation and distribution (both the company's private fleet and the contractors)

- Engagement of the supplier
- End use of the product

The use of lower volume of materials for production per unit of production has an impact both on the company profit and on its sustainable development, and an increasing number of companies use technologies for waste reduction or recycling. Sometimes improving efficiency is related to initial investments, which may result in cash flow deficiencies or increasing the indebtedness ratio of the company.

Increase of profit

The increase of profit is one of the main goals of company management. The relationship between company sustainability and, in particular, publishing a sustainability report and company profitability, is the subject of many research works. The reasons for the improved profitability of sustainable companies are related to the reasons for publishing sustainability reports, previously reviewed herein, namely: capacity to improve sales, decreasing the cost of capital, improving the efficiency of activities of the company, etc. Bodhanwala and Bodhanwala (2018) study 58 Indian companies, which are part of the database Thomson Reuters Asset 4 ESG and found a significant positive relationship between their sustainable development and their profitability in the form of return on the invested capital, return on assets, return on equity and profit per share.

Clarkson, Li, Richardson and Vasvari (2011) study companies from among four industry sectors with the highest pollution rate in the United States of America: paper manufacturing, chemical, petrol and mining industries, and they have found a bilateral connection between sustainability and the financial status of companies. At the same time another study (2008) of the same team of authors has found a positive relationship between the environmental indicators of a single company

and the level of disclosure of environmental information.

Sustainable companies from many developing countries are not behind on this trend. Haanaes, Michael, Jurgens and Rangan (2013) quote a large-scale study of the Boston Consulting Group and the World Economic Forum for more than 1,000 companies in developing countries, according to which:

“...From the pool of companies studied, we identified more than a dozen “champions,” whose sustainability practices were highly effective, innovative, and scalable. These organizations are located in countries across Latin America, Africa, the Middle East, Asia, and the South Pacific. Some pursue sustainability out of pragmatism, some out of idealism. But regardless of their motivation, they have consistently generated above-average growth rates and profit margins.”

Concurrently, there are other market studies, which fail to find an association between sustainability reporting and other sustainable initiatives, and improved company profitability. Hernandez-Pajares and Moneva (2018) have interviewed the managers of SME's in Spain and Peru and summarize that most of the managers are of the opinion that CSR related policies have not improved the results of their companies.

Fostering innovation

Preparing a sustainability report results in a possibility for comparison of multiple economic, environmental and social indicators. The willingness to improve these indicators often requires an innovative approach and innovative solutions. Concurrently, innovations in more environmentally friendly products or processes could result in competitive advantage for companies. According to a report of Capozucca (2012) by Deloitte, sustainability can stimulate innovations through introduction of new limitations, which formulate the way key resources are being used in products and processes. In another report, the innovation is being reviewed as a transformation into a competitive advantage through the learning process (Mihaylova, 2020).

In an article for Harvard Business Review, Nidumolu, Prahalad and Rangaswami (2009), while making an analysis of sustainable practices of 30 major US corporations, have reached the conclusion that sustainability is the foundation of organizational and technological innovations, which increase both revenue and profit of corporations. In the opinion of the authors, this happens as corporations go through several different phases that require them to be innovative:

- Looking at environmental or social regulations as an opportunity, and not as a problem.
- Sustainability of the value chain, which includes:
 - a. Working with suppliers
 - b. Restructuring of operations
 - c. Transformation of the workplace and work from home
- Design of sustainable products and services
- Development of new business models
- Creating platforms for future practices

Ilieva and Dobрева (2015) rank innovations as some of the most important contributions of SMEs to sustainability. Also, Dobрева claims that business development models rely on innovation and co-creation (Dobрева, 2016a) and establishes the social entrepreneurship model as a solid foundation for sustainable business (Dobрева, 2016b). Haanaes, Michael, Jurgens and Rangan (2013) consider the results from a study of more than 1,000 companies by the Boston Consulting Group and the World Economic Forum in developing countries and reach the conclusion that in markets, where the pressure on resource depletion is highest, corporate sustainability has become a source of innovation.

Increasing the value of the company

Increasing the value of the company is one of the most important tasks of any manager. The relationship between reporting sustainability and introducing sustainable practices in a company and that company's value is the subject of various studies. Berthelot, Coulmont

and Serret (2012) have studied Canadian companies listed on the stock exchange in Toronto, and they have reached the conclusion that publishing the sustainability report has had a positive impact on the company value. Lackmann (2010) has reached the same conclusion, analyzing listed German companies.

Loh, Thomas and Wang (2017, p.11) analyze 502 companies, listed on the Singapore stock exchange. In their opinion:

"...our results suggest that sustainability disclosure is positively related to the market value of a firm, and the better the quality of sustainability reporting, the stronger the linkage. In addition, we find that firm status such as government ownership, family business and operating in high impact sectors does not have impacts on the linkage."

There are also studies which have failed to find direct link between publishing sustainability reports and the value of the company in all sectors and all geographic markets. In 2012, Carnevale, Mazzuca and Venturini (2012) have studied 130 European banks, listed on various stock exchanges. Their conclusion is that a positive link between publishing a sustainability report and the price of shares of the bank exists only in certain countries. Cormier and Magnan (2007, p.613) reach a similar conclusion while studying companies in Germany, France and Canada:

"Results suggest that decisions to report environmental information have a moderating impact on the stock market valuation of a German firm's earnings. In contrast, environmental reporting does not significantly influence the stock market valuation of Canadian and French firms earnings."

Motivation of current and attraction of new employees

When publishing a sustainability report, a company would like to disclose its value system. Through this act, the company states its intention to be transparent toward its stakeholders and put emphasis on the social and environmental aspects of its activity. Often this system of values makes it more attractive for

individuals with similar value systems. This is how the company would become the preferred employer for current and future employees. Preparing the report and collecting information for that report usually attracts the attention of many current employees. They are one of the most important stakeholders for each company, and part of the social issues that the report focuses on are related to the employees of that company, and therefore preparing this report very often has high approval levels within the company. Bode, Singh and Rogan (2015) study the relationship between the involvement of employees of a company in corporate social initiatives and the retention rate among employees of that company. In an analysis of the behavior of more than 10,000 employees, they have found a positive relationship and they have reached the conclusion that companies, the employees of which take part in corporate social initiatives, have a much higher rate of retention of their employee. The analysis of the manufacturing giant Unilever offers a very similar experience. Bhattacharya (2016) has analyzed the following phenomenon: A sociology study of Gallup international in several countries has shown that the engagement of employees, widely defined as a condition in which employees are inclined to think and talk positively about their workplace, has been at its absolute historic low for several years. Only 13% of the employees feel engaged with the companies that they work for. At the same time, the engagement level of all 170,000 employees of Unilever has reached 80%. The author has reached the conclusion that the main reason for this is Unilever's implementation of a sustainable business model, which puts high priority on the environmental and public considerations, along with growth and profits. In the opinion of the author, this model influences the higher sense of purpose and this higher sense of purpose is what many employees want.

The empathy of a company toward sustainability and its social responsibility has a positive impact on attracting new employees. In 2016, Burbano performed two experiments in

two online job sites and has found that potential employees of companies are even willing to sacrifice a part of their future income when applying for a job with a company, for which they are aware that it is a socially responsible company.

Risk management

Environmental and social risks are a category in risk management. They represent potential adverse consequences that may occur as the result of the influence of the company on the environment or the public. The adverse consequences for that company may be in the form of: loss of clients due to impaired reputation; additional costs for removal of environmental damages; fines or court processes; writing off assets; diminished productivity, etc. Often environmental and social issues may result in multi-million fees, and even bankruptcy of whole industries, such as asbestos manufacturers in the second half of the 20th century.

In order to emphasize the strong connection of the sustainability report with risk management, in an interview for MIT Sloan Management Review, the CEO of the Global Accountability Initiative at the time, Mr. Michael Meehan, stated:

"Do not think of it (the report) as a financial statement, think of it as an instrument of strategic risk management" (Kiron and Kruschwitz, 2015).

Analyzing the standard financial statements, Tähtinen (2018), in an article on the website of the International Federation of Accountants, reached the conclusion that they are inadequately assessing environmental risks, as well as risks related to governance of a

company, which may result in huge losses of value by investors. According to the author, the use of a sustainability report could support the process of correctly evaluating this type of risks. Concurrently, Brandt (2011) suggests how main indicators in the sustainability report may be used to reduce risk in the power generation and transmission sector.

Value system of a top manager/owner

There may also be non-economic reasons for writing a sustainability report. In such cases, due to the value system of a top manager/owner, the company, without assigning economic benefit as an objective, takes a decision to walk down the path of sustainability and to prepare a sustainability report. As Haanaes, Michael, Jurgens and Rangan (2013) remark, analyzing more than 1,000 companies in developing countries – some companies are aspiring toward sustainability because of pragmatism, and others do it because of idealism. The value system of the top manager/owner has a particularly strong influence on decision-making in small and medium enterprises. Studying SMEs in Catalonia, Murillo and Lozano (2006) have found that the value systems of the managers/owners are in the foundation of the activities of the companies, related to their sustainability.

In their article regarding the small and medium enterprises in Great Britain and the Netherlands, Spence and Rutherford (2000) have reached similar conclusions. According to Boyanov (2013, p. 48), due to the mostly voluntary nature of sustainability reporting:

"A very strong role is the subjective factor – conscious internal responsibility, morals, and engagement of managers of enterprises to the current condition and the future development of public welfare and the environment".

Conclusions

During the last decade, we are witnessing a dynamic transformation of public opinion regarding certain public issues, such as global warming and social inequality. The global

financial crisis of 2008, the statistics that takes into consideration the increasing global average temperatures, the increasing social inequality and the intensifying role of social media on the

awareness of the public, are the factors that influence this transformation. In turn, this creates new expectations toward companies in their involvement in social processes. Looking for legitimacy and improved competitiveness, an increasing number of companies are now ready and willing to disclose environmental and social information. The main reasons for this have been identified as follows:

- Requirements or preferences of clients
- Public pressure on the company by stakeholders
- Regulatory provisions
- Cost of capital
- Image and trademark
- Comparison with competitors and sectoral standards
- Measuring the results regarding the assigned goals, related to sustainability
- Improving efficiency

- Increasing the profit
 - Fostering innovation
 - Increasing the value of the company
 - Motivating current and attracting new employees
 - Risk management
 - Value system of a top manager/owner
- Even though an increasing number of regulators require certain companies to disclose environmental and social information, the sustainability reporting is still predominantly a voluntary activity that distinguishes the companies that write a sustainability report from the companies that do not. Preparing a sustainability report requires additional human and financial resources, however multiple studies have indicated that sustainability reports may have a positive impact on the business of a company.

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