

Closing the Gap in Corporate Sustainability Reporting – A Step Toward Doing Business Within Planetary Boundaries

Legal and social norms generally do not require corporations and investors to account for limited natural resources and ecological impacts (“planetary boundaries”, Rockström et al., 2009). My doctoral project is informed by economic theories that go beyond individual rationality and rethink the standard definition of efficiency in the context of environmental and social systems. My thesis focuses on corporate sustainability reporting requirements and if their implementation could be a stepping stone to building institutions that facilitate business within planetary boundaries.

Corporate sustainability reporting can serve two goals, namely informing investors and regulating corporate conduct through increased transparency. These aspects are connected through the concept of corporate reputation which is determined by stakeholder attitudes towards a corporation. Thus, sustainability reporting requirements must be considered in the context of both disclosure under securities laws and corporate regulation. In my thesis, I will shed light on several questions that are directly related to key principles of good corporate governance: transparency and accountability. In particular, I will address the following aspects.

1) A study by the Canadian Securities Administrators has revealed that Canadian corporations encounter difficulties in integrating climate change-related reporting into the conventional framework for assessing the materiality of information which emphasizes quantifiable impacts on financial performance. Correspondingly, corporations often do not meet investors’ informational needs with respect to climate change-related issues (CSA Staff Notice 51-354, 2018). This observation illustrates that the “reasonable investor” test for determining materiality cannot accommodate the informational needs of heterogeneous investors. It also demonstrates that the conventional approach to reporting under securities laws does not leave much room for the consideration of planetary boundaries and ultimately reinforces the corporate norm of profit maximization (see Sarra, 2018, Sjøfjell & Richardson, 2015, and Liao, 2014). My research will provide a comparative doctrinal and institutional analysis of the current framework of corporate sustainability reporting in Canada and Europe where “non-financial” reporting requirements have mandated corporate disclosure of environmental and human rights matters since 2016. This analysis will functionally situate sustainability reporting within Canadian securities laws and corporate law. It will ask if the assumed preferences of the “reasonable investor” could be reconsidered to include planetary boundaries and assess the option of introducing sustainability reporting requirements that are separate from established reporting practices under securities laws. My findings can assist corporate directors in navigating sustainability reporting under the current framework. Based on my analysis, I will also propose a framework for corporate sustainability reporting that provides legal certainty and supports corporate directors in their mandate to govern Canadian corporations as “good corporate citizens” (SCC, BCE Inc. v. 1976 Debentureholders).

2) My thesis will also include an empirical examination of how investors respond to mandated corporate sustainability reporting. By means of a regression discontinuity research design, I will analyze if and how large investment firms discuss environmental and human rights matters in their annual reports and compare patterns before and after the non-financial reporting requirements took effect in Europe. These findings will contribute to our understanding of how investors utilize sustainability reporting information and if industry norms change as a result of the introduction of reporting requirements. The intention is for such insights to inform corporate reporting practices and assist policy makers in assessing the merits of sustainability reporting requirements.

In summary, my research has the potential to improve Canadian boards’ understanding of the political risk associated with increased demands for corporate transparency. In particular, I hope to assist directors in managing the various demands faced by business organizations as calls for more sustainable business practices coincide with expectations of short-term financial performance. I would be exceedingly honoured to be associated with the Canadian Foundation for Governance Research and greatly appreciate the opportunity to connect with Canadian corporate directors to gain invaluable practical perspectives on this important research topic.