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İŞLETME (İNGİLİZCE) ANABİLİM DALI
MUHASEBE FİNANSMAN (İNGİLİZCE) BİLİM DALI

**IMPACT OF CORPORATE SUSTAINABILITY REPORTING ON FIRM
PERFORMANCE/ INVESTOR DECISIONS- EVIDENCE FROM TURKEY**

Yüksek Lisans Tezi

EYLÜL ÖZDARAK

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DANIŞMAN: DR. ÖĞR. ÜYESİ ÇAĞATAY AKARÇAY

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ÖZET

18. yüzyılda ortaya çıkan Sanayi Devrimi, el emeğine dayalı küçük atölyelerin büyük ölçekli endüstriyel işletmelere dönüşmesini hızlandırarak sermaye piyasalarının gelişmesini ve genişlemesini sağlamıştır. Bu devrim ekonomide yeni bir teknolojik çağ açarak toplumsal refahı arttırmış gibi görünse de ‘daha fazla üretim’ felsefesi, bir yandan işçilerin insan haklarına aykırı çalışma koşullarına maruz kalarak sömürülmesine; diğer yandan üretim tesislerindeki zehirli gazların ve atıkların sorumsuzca doğaya salınarak ekolojik dengenin bozulmasına sebep olmuştur. Zaman içerisinde yaşanan doğal felaketler ve toplumsal bunalımlar, bu durumun insanlığın ortak geleceğine tehdit oluşturduğunu açığa çıkarmış ve sürdürülebilir kalkınma kavramını gündeme getirmiştir. Böylece işletmelerin esas amacının yalnızca pay sahiplerine kar sağlamak olması, yerini işletmelerin paydaşlarına karşı her türlü çevresel, sosyal ve yönetim (ÇSY) faaliyetinden sorumlu olmaya bırakmıştır. Günümüzde sermaye piyasaları işletmelerin eylemleriyle çevreye ve paydaşlarına nasıl değer kattıklarını ya da nasıl değer azalttıklarını şeffaflık ve hesap verilebilirlik ilkelerine uygun olarak kamuya açıklamalarını talep etmekte; işletmelerse bu bilgilerin raporlanmasıyla ÇSY risklerini azaltıp paydaşların güvenini artırmayı, dolayısıyla finansal performanslarını iyileştirmeyi hedeflemektedir. Bu doğrultuda ÇSY raporlamasıyla ilgili standart ve kavramsal çerçeve yayınlayan birçok kurum, uluslararası işbirlikleri yürüterek faydalı ve önemli finansal olmayan bilgilerin güvenilir bir şekilde raporlanmasını teşvik edici çalışmalar yürütmektedir. Genel olarak Sürdürülebilirlik Raporlaması (SR) olarak adlandırılan bu raporlar, yapılan girişimlere rağmen halen finansal raporlama kadar yaygın ve sistematik değildir. Bu tezin amacı, Sürdürülebilirlik Raporları’nda açıklanan finansal olmayan bilgilerin raporlayan işletmelerin finansal performansına etkisini ölçmektir. Bu doğrultuda 2009-2018 yılları arasında Borsa İstanbul Metal Eşya Endeksi’nde yer alan 25 işletmenin finansal performansı regresyon analizi ile incelenmiştir. Analiz sonucunda Sürdürülebilirlik Raporlaması ve Finansal Performans arasında anlamlı bir ilişki bulunamamıştır.

Anahtar kelime: sürdürülebilirlik raporlaması, finansal olmayan bilgi, finansal performans

ABSTRACT

The Industrial Revolution which took part in the 18th century fostered the development and the growth of capital markets by transforming sweatshops that had been based on handcraft into large-scale industrial businesses. Although the revolution purports to have increased social welfare by ushering in a new epoch with technological advances in economies, the philosophy of 'more production' has led to the exploitation of workers suffering from working conditions antithetical to human rights and to the disruption of the ecological balance by irresponsibly dumping the wastes in the production facilities. Natural disasters and social crises experienced over time have revealed the menace to the common future of humanity and brought the concept of sustainable development to the agenda. Thus, the main purpose of businesses which had been only to provide profit to the shareholders has been transformed into being responsible for all environmental, social and governance (ESG) activities of the businesses towards their stakeholders. Nowadays, while capital markets require businesses to disclose the way how they add or reduce the value to the environment regarding transparency and accountability to their stakeholders; reporting entities aim to reduce ESG risks and increase stakeholder trust thereby improving their financial performance. Accordingly, many international conceptual frameworks and standard-setters ESG reporting have decided to cooperate to promote the disclosure of useful and material non-financial information. Commonly referred to as 'Sustainability Reporting' (SR), these reports are still not as extensive and systematic as financial reporting despite efforts. The purpose of this thesis is to measure the impact of non-financial information disclosed in Sustainability Reports on the financial performance of reporting entities. The financial performance of 25 companies traded in the Borsa Istanbul Metal Products Machinery Index between 2009-2018 was analyzed with regression analysis. No significant relationship existed between Sustainability Reporting and Financial Performance.

Keywords: sustainability reporting, non-financial information, financial performance

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ABBREVIATIONS

AICPA	American Institute Of Certified Public Accountants
BIST	Borsa Istanbul
CDSB	Climate Disclosure Standards Board
CED	Committee For Economic Development
CERES	Coalition For Environmentally Responsible Economies
CFA Institute	Chartered Financial Analyst Institute
CMB	Capital Markets Board
COVID-19	Coronavirus-19
CS	Corporate Sustainability
CSR	Corporate Social Responsibility
EBITDA	Earnings Before Interests, Taxes, Depreciation And Amortization
EES	Economic, Social And Environmental
EIRIS	Ethical Investment Research Services Limited
EPS	Earnings Per Share
FASB	Financial Accounting Standards Board
FP	Financial Performance
GHG	Greenhouse Gas Emissions
GRI	Global Reporting Initiative
HDI	Human Development Index
IAASB	International Auditing And Assurance Standards Board
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IMF	International Monetary Fund
ISAE	International Standard On Assurance Engagements
KAP	Public Disclosure Platform
MBR	Market To Book Ratio

MDG	Millennium Development Goals
NDCs	Nationally Determined Contributions
P/E	Price/Earnings Ratio
PCAOB	Public Company Accounting Oversight Board
ROA	Return On Assets
ROE	Return On Equity
SASB	Sustainability Accounting Standards Board
SDGs	Sustainable Development Goals
SR	Sustainability Reporting
TBL	Triple Bottom Line
UN	United Nations
UNCBD	United Nations Convention On Biological Diversity
UNCCD	United Nations Convention To Combat Desertification
UNCED	UN Conference On Environment And Development
UNCSD	United Nations Conference On Sustainable Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention On Climate Change
US GAAP	United States Generally Accepted Accounting Principles
USA	United States Of America
WCED	World Commission On Environment And Development
XMESY	BIST Metal Products Machinery

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INTRODUCTION

In consequence of the Industrial Revolution, the rapid population growth and urbanization one hand created a wider opportunity for employment but on the other hand, the unrestrained establishment of factories led to the use of non-renewable natural resources to supply the ever-growing need for energy. In the early periods when the concept of sustainability was introduced, many believed that natural resource management was the responsibility of governments and civil society foundations. However, with the emergence of groundbreaking theories in the academy, the view that companies were also an integral part of society and that they directly and greatly affected the welfare of society gained recognition which resulted in the abandonment of the shareholder intimacy, which proponed the idea that companies were solely responsible to company-owners and that their primary concern would be to maximize company profits and increase shareholders' wealth. Nowadays, companies are expected to take an active role by planning, developing and implementing their business processes in the achievement of sustainability goals according. Referred as "Environmental, Social and Governance" in the literature, it is the general formulation of conceptual framework commonly used to measure and report corporate sustainability performances of companies through sustainability reports.

Sustainability reporting is attracting widespread interest as humankind is exposed to the depletion of limited resources and climate change. However, the characteristics of sustainability information and the undergoing irregularity of sustainability reporting call the usefulness of the information disclosed into question. The purpose of this thesis is to investigate the relationship between sustainability reporting and financial performance. The hypothetical associations were tested using panel regression analysis of 25 Turkish companies of the Borsa Istanbul Stock Exchange over the period of 2009-2018 and results were discussed accordingly. The thesis has original value in terms of developing and testing hypotheses by acknowledging the limitations of the usefulness of non-financial information.

The remainder of this thesis is organized as follows: the first section provides a general perspective of the evolution of management philosophy throughout a century and of the manifestation of Corporate Social Responsibility which is deeply scrutinized by comparing counter-views together with their motivations.

The second section focuses on Corporate Sustainability where it is discussed why and how companies could contribute to sustainable development goals. In this direction, the emergence of the TBL framework and the other ESG- based frameworks and standards are comprehensively studied.

The third section gives an overview of the current ESG practices and national laws and regulations enacted in Turkey and sheds light on Turkey's level of tracing ESG trends among other countries with statistical data.

In the fourth section, the materiality of non-financial information disclosed in sustainability reports is comparatively defined according to various accounting authorities. Moreover, the characteristics of non-financial information are discussed by referring to the qualitative characteristics that financial information with reference to the Conceptual Framework.

The fifth section attempts to give a brief literature review after which the model and related hypotheses of the research are developed and the methodology is explained. Empirical findings and limitations of the research are also documented and discussed.

The sixth and the last section sets out the current attempts of the foundation of a single sustainability standard-setter authority and gives a conclusion and implications of this thesis.

1. CORPORATE RESPONSIBILITY AND CORPORATE SOCIAL RESPONSIBILITY

In the 18th century, as a reaction to the mercantilist regulations of France, physiocrats adopted the economic system of "laissez-faire", which refers to "let do". Generally associated with Adam Smith due to his 'invisible hand', the laissez-faire economy was based on the free-market economy where governmental interventions to trade were minimized. The biggest misconception of the laissez-faire economy was the idea that when all participants of the market were focused on maximizing their own interests, social welfare would be established by itself (Frederick, 1960). Advocators of the system believed that since all participants of the market were allowed to trade within few restrictions, the market would be adopted to the optimal circumstance which would maintain sustainable development (Lal Basu, 2008: 82). Yet, the havoc wrought by World Wars and the accompanying economic depressions incited societies to question the principles of the laissez-faire economy; it was then elicited that pursuing self-gain was not always promoting the public good. (Frederick, 1960).

In the early 1900s, while Ford Motors Company was breaking sales records, the company's founder Henry Ford made a radical decision and announced a price reduction of T-model vehicles so that more people could afford them. Shareholders opposed this shocking decision and sued Ford for betraying the company's shareholders. Although Henry Ford defended himself in the courtroom by explaining his company's mission with the words: "*To do as much as possible for everybody concerned, to make money and use it, give employment, and send out the car where the people can use it; business is a service, not a bonanza*" (Allaire; 2014)¹, the judge reversed Ford's decision and ordered to pay dividend to shareholders (Lee, 2008). In 1999, when the heir of Ford Motor Company William Clay Ford Jr made a similar speech to that of his great-grandfather: "*I believe the purpose of a company is to make people's lives better*" (Ford Motor Company)², a loud round of applause was given to the chairman by the company's shareholders (de Jong & van der Meer, 2017). Although the anecdote is the

¹ <https://www.weforum.org/agenda/2014/01/role-business> Accessed: December, 2020

² <https://media.ford.com/content/fordmedia/fna/us/en/people/william-clay-ford--jr-.html> Accessed: December, 2020

epitome to demonstrate the radical change that society has undergone in 83 years, this change was neither rapid nor effortless.

In 1916, American economist, John Maurice Clark complained about inheriting an economy of irresponsibility (Clark, 1916: 210). He criticized laissez-faire economics for deteriorating business values (p. 218) and for neglecting both environmental and social responsibilities. Clark (1916) advocated the acceptance and the fulfillment of business ethics for the commonwealth with an impressive vision from the period of World War I. In 1924, a businessman himself, Oliver Sheldon tried to restructure ‘the philosophy of management’ as he named his book. He put the management in charge of pursuing organizations’ policies and making economic decisions such as waging and profit distribution by regarding social justice and business ethics (Sheldon, 1924).

The idea that businessmen would be responsible for their actions –although to whom or why it is a matter of debate, created the concept ‘Corporate Social Responsibility’ (CSR). The starting point that triggered the evolvement of the concept of CSR has been believed to be the Industrial Revolution (Carroll, 2008), which emerged in the latter half of the 19th century, when the main motivation of businesses was developing methods to make workers more productive (Carroll, 2008) without any consciousness of human needs or psychology. In the first years of its occurrence, Corporate Social Responsibility was vaguely characterized in moral and macro-social ways so that shareholders couldn’t understand how worthwhile it was for their companies’ interests (Lee, 2008: 54).

Although the history of the term CSR dates back to the early parts of the 20th century, the evolution of the concept is generally accepted to be begun after World War II in the 1950s. Howard R. Bowen in his groundbreaking work ‘Social Responsibilities of the Businessman’ remarked how large companies had a significant effect on the whole community (Carroll, 1999: 269). Bowen (1953) described businessmen (*executives of today*) as ‘servants of society’ “*whose decisions affect not only themselves... but the employment and prosperity, the rate of economic progress, the distribution of income among various groups*” (p.3-4) “*who are responsible for the consequences of their actions beyond their profit and loss statements*” (p.44). Then he pioneered the first official definition of social responsibility as “*the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society*” (ibid: p.6). Bowen (1953) emphasized the necessity of moral codes that would enable that businessmen not only meet to customer demands, but also to consider the possible impacts of their decisions on

society, to guarantee the health of their employees, and to comply with legal obligations in contrast to the laissez-faire economy model (p.17). Bowen in the late years is honored by academics as the ‘Father of Corporate Social Responsibility’ for his valuable contributions (Carroll, 2008; Acquier, Gond, & Pasquero, 2011; Zhang & Jung, 2020). Although many laws and regulations were enacted in line with this approach, at that time they didn’t only remain mostly insufficient to oversight the rights of each party in society but also initiated everlasting new debates (Valor, 2005).

The claims about businessmen having social responsibilities in addition to their financial responsibilities of achieving corporate goals were not initially welcomed in the business world (Heald, 1970; Chang et al., 2017). CSR, which was only a discussion topic in the previous decade attracted significant attention in the 1960s (Carroll, 2008) and was reshaped by different perspectives about both theoretical and practical applicability (Heald, 1970). In this era, researchers mainly focused on characterizing the key features of organizations’ responsibilities towards society (Moura-Leite & Padgett, 2011).

Davis (1960) came forward with social responsibility definition that he described as “*businessmen’s decisions and actions taken for reasons at least partially beyond the firm’s direct economic or technical interest*”(p.70). He articulated that since businessmen were managing an economic unit in society they had a broad obligation to the community concerning economic developments affecting the public welfare (p. 70) and their responsibilities needed to commensurate with their social power (p.71). Davis (1960) divided the social-responsibilities of businessmen into two groups: ‘socio-economic responsibilities’ to maintain economic welfare and ‘socio-human responsibilities’ to protect human values (p. 74). Accepting the fact that the primary function of companies was to operate as an economic unit, he remarked on the *socio-human power* of businessmen which was capable to influence a large section of the community. Hence Davis (1960) argued that it was inevitable that companies disregarding human capital would go ‘*socially bankruptcy*’ (p.76), therefore businessmen were obliged to take flexible decisions regarding their socio-human responsibilities which were the result of their social freedom.

In 1962, Friedman provoked a decades-long debate in his book named ‘Capitalism and Freedom’, in which he penned his groundbreaking thoughts about an ideal economic system and corporate responsibilities within that economic system. While advocating the laissez-faire economy, Friedman (1962) manifested that the free-market system would improve both the economic and the political environment of countries, but ignored the damage it would cause to

the equality of opportunity and democracy (Palley, 2006). Friedman (1962) put forward his opinion about minimum wages and unions which were assumed to waste corporate resources and therefore should be eliminated. From his own famous words: *"there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game"* (Friedman, 1962: 112). As can be understood, Friedman (1962) one of the pioneers of monetarism argued that companies had no other responsibility than maximizing the shareholders' wealth, thus explicitly rejected the social liabilities of companies. Friedman (1962), or as Palley (2006) called him *'the Great Laissez-Faire Partisan'* (p. 5041), promoted free competition and deregulation in the markets, but only within the legal rules and procedures. The rationale behind Friedman's arguments was that the economic interests of businesses must be compromised when bearing additional costs associated with social responsibilities in contrast to the wealth maximization theory (Husted & De Jesus Salazar, 2006). According to Lee (2008) the primary justification why Friedman opposed CSR was the embezzlement risk of shareholders' capital under the name of social responsibility by executives. Awarded a Nobel Prize for his contributions, Friedman was one of the most important economists who deeply influenced the economy of the 20th century, despite his opinions inimical to the spirit of the CSR philosophy (Palley, 2006).

Further, McGuire (1963) extended CSR definition as he stated: *"The idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations"* (p. 144). In 1966, one of the leading researchers Davis, revisited the definition of CSR more precisely in his book *Business and its Environment*: *"Social responsibility, therefore, refers to a person's obligation to consider the effects of his decisions and actions on the whole social system. Businessmen apply social responsibility when they consider the needs and interests of others who may be affected by business actions. In so doing, they look beyond their firm's narrow economic and technical interests."* (Davis and Blomstrom, 1966: p. 12). A year after, (Davis, 1967) reformulated the CSR from a wider perspective as: *"the concern for the ethical consequences of one's acts as they might affect the interests of others"* (p. 46). Davis (1967) suggested pluralism between businesses and the society since detrimental actions or decisions of a group would harm the other part in return. The author characterized businesses as 'joint ventures of responsible citizens' (Davis, 1967: 47) and considered them a whole with their shareholders, employees, and environments. This 'joint venture' assumption was revisited by E. Freeman in the 1980s comprehensively.

A massive oil well explosion, which went down in history as one of the biggest environmental disasters in the world in 1969, caused thousands of tons of barrels of oil to spill on the Santa Barbara Channel for 10 days and tens of thousands of sea creatures to be killed (Latapí Agudelo et al., 2019). This calamity led to the foundation of Earth Day, which attracted more than 20 million people in the United States to protest oil spills, toxic chemicals, hazardous wastes, polluting factories and power plants (Earth Date, nd)³. Despite ecological movements, academic studies of CSR still centered on social aspects rather than environmental issues (Montiel, 2008). This wasn't because academics didn't take environmental issues seriously; they considered them as a research field other than CSR, such as environmental management (Montiel, 2008). However, in the 1970s, CSR researchers started to evaluate superficially the correlation between CSR and corporate financial performance rather than ethical obligations discussions (Lee, 2008).

Friedman (1970) published an essay in the New York Times with the headline '*A Friedman Doctrine: The Social Responsibility of Business is to Increase Its Profits*' in which he explicitly reinforced his opinions presented in 1962. He argued that businesses were legal entities that couldn't be subject to responsibilities other than economic ones (Friedman, 1970). For Friedman (1970), executives were employees who were appointed by company owners to run the company and to make money on behalf of them while complying with laws and ethical rules. Engaging in social responsibilities would mean stealing from shareholders' money which would harm various parties in the society; i.e. shareholders by reducing their wealth, customers by increasing selling prices and workers by reducing wages (Wartick & Cochran, 1985). His doctrine drew great interest and his shareholder primacy was called 'shareholder theory' in later years. Similarly, Manne and Wallich (1972) in their work '*The Modern Corporation and Social Responsibility*' ignited a new debate on the definition of CSR by claiming that the marginal returns on CSR engagement in the first stage would be less than earnings available from alternative investment expenditures.

The proliferation of CSR had been accelerated with the involvement of organizations. A publication from the Committee for Economic Development (CED) of the USA, '*Social Responsibilities of Business Corporations*' in 1971 emphasized the existence of a *contract between society and businesses* whereas businesses were awaited to undertake more

³ <https://www.earthday.org/history/> Accessed January 2021

responsibilities other than supplying goods and services and managements were charged to respond to ever-changing demands of society (CED, 1971: 16). This social contract is presumed to incite businesses to conform to society's standards and values (Wartick & Cochran, 1985). In the same year, the United Nations Conference on the Human Environment –also called the Stockholm Conference, was held as the first international conference addressing environmental problems attended by 133 countries with different development levels. Regardless of poverty, all participating countries acknowledged environmental menaces (Dresner, 2008: 31) and agreed on the creation of an authority to set the worldwide eco-development agenda, the United Nations Environment Programme (UNEP) (UNEP, n.d.)⁴. Founded in the capital of Kenya, the UNEP purposed to focus on seven topics of environmental sustainability: climate change, disasters and conflicts, ecosystem management, environmental governance, chemicals and waste, resource efficiency, and the environment under review (UNEP, n.d.)⁵.

A non-profit organization founded by academics, economists and executives endeavoring to propose solutions to global issues, the Club of Rome published a valuable report named Limits to Growth: authored by four educators from the Massachusetts Institute of Technology and their team. Their analysis was centered on four main problems: industrialization, population growth rate, malnutrition and depletion of non-renewable resources (Meadows et al., 1972: 26). What Meadows debated was that the exponential growth in industrialization and in the population would result in the same increase in environmental pollution and in the need for non-renewable sources (Elkins, 1993). The failure of scarce resources to supply compounding demands would eventually lead to the collapse of the system (Elkins, 1993). Meadows et al. (1972) concluded that the aforesaid collapse would be expected to happen within the current century in those circumstances. Colomba (2001) asserted that despite the fact that Meadows had never been an advocate of the laissez-faire system, she believed in free-market democracy and her remark on the insatiable resource consumption aimed to stabilize market dynamics in the long run. Instead, they proposed integrating sustainable trends into the economic system to ensure the availability of opportunities that each person deserved (Meadows, 1972).

A noteworthy legitimacy-based framework was developed by Sethi (1975) for evaluating corporate social performance with 3 pillars. The first stage of corporate behaviors is referred to as '*social obligations*' which result from legal concerns (Sethi, 1975: 60) and

⁴ UNEP: <https://www.unep.org/about-un-environment> Accessed January 2021

⁵ <https://www.unep.org/about-un-environment/why-does-un-environment-matter> Accessed January 2021

generally imposes restrictions such as prevention of pollution or discrimination in recruitment processes (p. 62). The second stage comprises '*social responsibility*' activities which are presumed to be conforming with social norms and values (Sethi, 1975: 62). The third and the last state is consisted of '*social responsiveness*' activities –for instance, creating production models that are expected to cause the least damage to the environment, providing additional services to increase customer satisfaction, in order to meet changing societal demands (Sethi, 1975: 62) which requires compliance to the society's needs, norms and values as a result of the acknowledgment of the social contract rather than social pressures (Wartick & Cochran, 1985). These three dimensions of corporate behaviors are in nature proscriptive, prescriptive & anticipatory and preventive respectively (Sethi, 1975: 63). Eilbirt & Parket (1973) characterized social responsibility as a 'good neighborliness' where the society is assumed to participate in voluntary activities for the enhancement of their neighborhood such as the fight against racism or pollution (p. 7).

Another conceptual model, 'The Pyramid of Corporate Social Responsibility' was presented by Archie Carroll (1979; 1991) where *economic*, *legal*, *ethical* and *discretionary* responsibilities are incorporated. Depicted as a pyramid, these responsibilities are ordered according to the historical development and to the importance level of social responsibilities (Carroll, 1979: 500). Economic responsibilities are the primary and the most significant responsibilities due to the economic nature of companies. These responsibilities are centered on profit maximization in consequence of trading activities and they underlie the other dimensions of the pyramid (Carroll, 1979: 500). However, society stipulates certain conditions while accepting the profit goal of businesses. Legal responsibilities consist of laws and regulations of the market required to be pursued under which businesses operate (Carroll, 1979: 500). Ethical responsibilities are actions expected or approved by society beyond laws that are intended to promote social welfare (Carroll, 1991: 41). The last and the uppermost layer of the pyramid includes Discretionary responsibilities which are based on a philanthropic basis –in fact, it is disputable whether these practices can be considered as responsibility (Carroll, 1979: 500). Years later, Carroll (1999) opposed those who claimed that financial returns were for only businesses' own interest and therefore cannot be called responsibility, by arguing that economic transactions of businesses were interrelated with society. Despite debates and reconstructions over years, Carroll's model has been and still is one of the fundamental and comprehensive guidelines for researchers in business ethics, CSR and corporate citizenship fields (Lee, 2007).

The aspects of this conceptual model comprise the primary elements while assessing firms' social responsiveness (Aupperle, Carroll, & Hatfield, 1985)

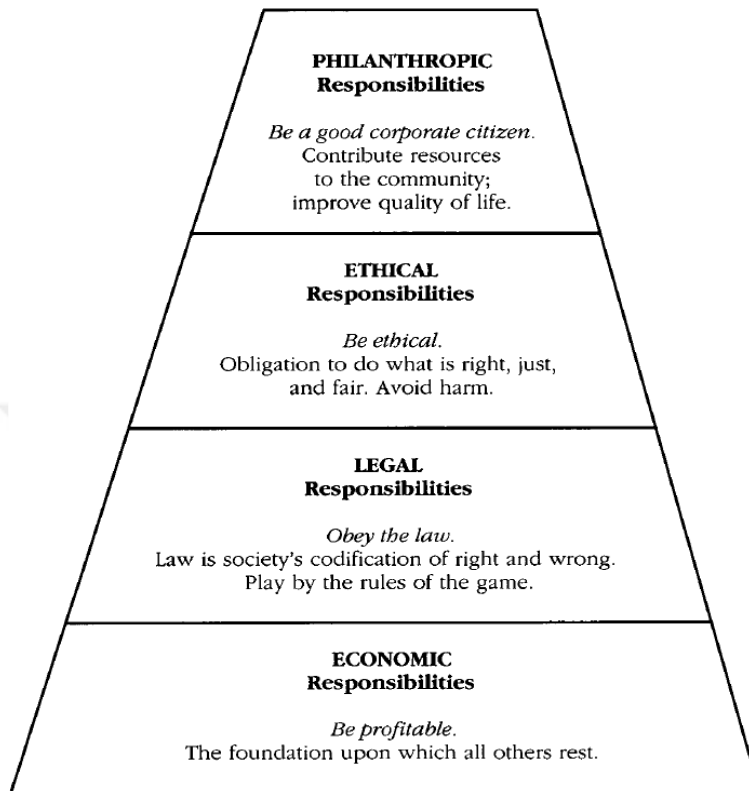


Figure 1.: The Pyramid of Corporate Social Responsibility

Source: Carroll (1991: 42)

According to Jones (1980), CSR is “*is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law or union contract*” (p.59-60). Jones in his study didn't only dwell on the theoretical meaning of CSR, but he also came forward with the practical implementation of CSR to decision-making methods for the first time which underpinned further frameworks and models (Latapí Agudelo et al., 2019). Jones (1980: 61) aggregated all the arguments of CSR opponents and tried to refute them as the following. Firstly, the antisocial responsibility view, which argues that corporations are only responsible to the company owners and must seek to maximize their profits inherently is fallacious since shareholders are not the only beneficiaries of companies that commonly have dispersed ownerships in current economies. Socially responsible use of corporate resources

doesn't purport to misappropriation of shareholders' wealth; instead, corporations pay the cost of the damage resulting from their business operations back to society to whom they owe. Since corporations are serving the public, they are required to comply with the prescribed value judgments and ethical standards of the society as well as with their commercial codes.

Most CSR researchers had agreed to the 'beyond shareholders' vision, but there was no clarity as to which parties' companies were socially responsible. In 1984, American philosopher and professor Edward Freeman –widely known for his landmark book *Strategic Management: A Stakeholder Approach* eliminated this ambiguity by introducing his *stakeholder theory*. Defined as “Any group or individual who can affect or is affected by the achievement of the organization's objectives” (Freeman, 1984: 46), stakeholders are categorized in two groups. While primary stakeholders are shareholders, employees, customers, suppliers and government agencies that ensure the survival of companies; competitors, local communities, chambers of commerce and unions that can affect companies' performance and strategies consist the latter one. Contrarily to shareholder intimacy theory, Freeman's stakeholder theory suggests that the accomplishment of business strategies in long-term depends on the responsiveness of all stakeholders' demands.

In the mid-1980s, environmental pollution arising from production and consumption gained recognition as a serious threat to scarce natural resources which was restraining the growth of the global economy (Colombo, 2001). As a result of various scientific studies proving that the depletion of the ozone layer was one of the predominant factor triggering global warming, the contracting parties revised the Vienna Convention on the Protection of the Ozone Layer agreement signed in 1985 and adopted the Montreal Protocol on Substances that Deplete the Ozone Layer (in short, the Montreal Protocol). The Montreal Protocol has the feature of being the only agreement signed by all countries over the world up to the present (UNEP, n.d.)⁶ which stipulates the reduction of ozone-depleting substances in production as well as in consumption (Luken & Grof, 2006).

⁶ <https://www.unenvironment.org/ozonaction/who-we-are/about-montreal-protocol> Accessed: February, 2021

2. CORPORATE SUSTAINABILITY

The Chernobyl nuclear disaster that occurred in 1986 in the capital of Ukraine resulted in the scattering of radiation 400 times more than the atomic bomb dropped on Hiroshima during World War II (International Atomic Energy Agency IAEA, 1996). The spread of radioactivity released as a result of the Chernobyl disaster spread to many countries by winds, fell on the ground as rainwater, mixed into drinking water, contaminated agricultural areas, poisoned plant products, and caused millions of people to suffer various diseases -especially cancer, and increased concerns about environmental sustainability dramatically. Accordingly, a year after the concept of Sustainable Development (SD) was articulated for the first time with the report "Our Common Future" published by the World Commission on Environment and Development (WCED). Widely known as the 'Brundtland Report', the report took its name from the chairperson of the Committee Gro Harlem Brundtland who was also the first female Prime Minister of Norway appointed by the General Secretary of the United Nations (UN) in 1983. The Commission -organized to raise awareness of the factors threatening the planet, invited all countries to develop long-term strategies to eradicate poverty, protect endangered plant and animal species, combat climate change and ensure the sustainability of limited natural resources by equally distributing them. The Brundtland Commission defined Sustainable Development as *"the development that meets the needs of the present without compromising the ability of future generations to meet their own needs"* (World Commission on Environmental Development, 1987: 43). Although more than 300 definitions of Sustainable Development are estimated to be made within various interdisciplinary studies (Johnston, Everard, Santillo, & Robèrt, 2007), the WCED definition has been and still is the most cited definition of Sustainable Development among others (Steurer et. al, 2005). Sustainable development refers to *"reconciling the need to extract resources from the environment with the equally important need to preserve a rich environment that can continue to supply what is required without sacrificing future generations"* (Colomba, 2001: 8). Sustainable development is considered as an instrument for resources& energy savings which consequently brings financial savings for industrialized countries (Baumgartner, 2014).

Based upon the definition in the Brundtland Report, the business version of sustainability is entitled as ‘Corporate Sustainability’ (CS) which indicates “*meeting the needs of a firm’s direct and indirect stakeholders (such as shareholders, employees, clients, pressure groups, communities etc.), without compromising its ability to meet the needs of future stakeholders as well.*” (Dyllick & Hockerts, 2002: 131). Corporate Sustainability is an alternative mindset that offers management styles comprising economic, social and environmental (EES) matters holistically in order to protect the rights of next generations (Lozano, Carpenter, & Huisinigh, 2015: 430). Corporate Sustainability is perceived and adapted as compulsory obedience to laws and regulations, a cost minimization strategy or a way of gaining competitive advantage (Hubbard, 2009).

In the 1990s, partnerships in the field of corporate sustainability were developed among many international institutions and governments. During this decade not only governments but also companies were expected to come to the forefront in the implementation of sustainable development acts (Dyllick & Hockerts, 2002). A milestone conference was held in Rio de Janeiro, Brazil between 3-14 June 1992 and hosted 178 countries as well as thousands of politicians, scientists and NGOs. Organized on the 20th anniversary of the Stockholm Conference, The UN Conference on Environment and Development (UNCED) -also known as ‘the Earth Summit’ offered cooperation between companies and environmental institutions under the action plan Agenda 21 (Redclift, 2005) to take joint responsibilities to equilibrate economic interests with environmental and social policies. The Rio Earth Summit played a crucial role in terms of putting environmental factors into practice in the business world (Redclift, 2005) by leading to three legally binding agreements:

- The United Nations Framework Convention on Climate Change (UNFCCC)
- The United Nations Convention on Biological Diversity (UNCBD)
- The United Nations Convention to Combat Desertification (UNCCD)

In 1997, the Kyoto Protocol was held in Japan over the climate change concerns as an extension of the UNFCCC. Engager countries committed to minimize human-made greenhouse gas emissions (GHG) domestically, rebuild their industrial infrastructure in the most environmentally kind means, legislate regulations to reduce non-renewable energy consumption and encourage sustainability initiatives. However, the entrance into force lasted until 2005 and the first commitment period ended in 2012. Contracting parties gathered in Qatar

to extend the protocol and signed the Doha Amendment, but this agreement did not last long and was replaced by the Paris Climate Agreement in 2015. The Paris Climate Agreement is an international treaty under the UNFCCC in which 195 countries agree to act jointly in order to prevent the climate crisis that was signed in Paris, France. It is called the ‘landmark agreement’ in combatting climate change since it is the first agreement that binds all countries to undertake common climate actions (UNFCCC, n.d.)⁷. Although the agreement was signed in April 2016 on Earth Day, it entered into force as of November 2016 since the requirement for ratifying the treaty of at least 55 countries representing 55% of global carbon emissions wasn’t met. It commits signatory countries to keep rising global temperature ‘well below’ 2 °C, preferably 1.5 °C compared to pre-industrial levels and to communicate their climate actions every 5 years known as Nationally Determined Contributions (NDCs). However, not all countries accepted this treaty: Turkey, Iran, Iraq, Libya, Yemen and Eritrea haven’t ratified the agreement and the United States of America (USA) withdrew from the agreement in 2020 on the grounds that the restrictions on greenhouse gas emissions were damaging for the national economy -but rejoined on February 2021.

2.1. CORPORATE SUSTAINABILITY REPORTING

Increasing stakeholder demands and pressures for more accountability and transparency accelerated publications of sustainability reports in the late 1990s (Marimon, Alonso-Almeida et. al, 2012; Ioannou& Serafeim, 2017) specifically after environmental calamities. The Exxon Valdez oil spill case that occurred in 1989 has been accepted as one of the devastating incidents of history when 11 million gallons of crude oil ran aground of the shoreline of Alaska and took millions of sea creatures’ lives. After the disaster a group of forward-looking investors believing companies as servants of the environment and the society published a code of conduct “the Valdez Principles” with the purpose of readdressing and transmuting the business manner. The comprehensive framework offers 10 voluntary principles for evaluating and supervising companies in regard to their environmental and social commitment (Sanyal & Neves, 1991: 188, 189):

- Protection of the biosphere
- Sustainable use of natural resources

⁷ <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement> Accessed February, 2021

- Reduction and disposal of waste
- Wise use of energy
- Risk reduction
- Marketing of sale products and services
- Damage compensation
- Disclosure
- Environmental directors and managers

Other than sustainability disclosure, The Valdez Principles came to the forefront with the idea of setting a monitoring authority that would encourage companies to prepare and publish their sustainability engagement for stakeholders considering non-financial information while making decisions (Sanyal & Neves, 1991). The organization was later named Coalition for Environmentally Responsible Economies (CERES) that aims to transform the global economy into sustainable markets with the collaboration of environmentalist partners from all over the world (CERES, n.d.)⁸.

2.1.1. Triple Bottom Line

Historically, corporate reporting –the means by which stakeholders and reporting entities themselves can use information disclosed to evaluate firm performance, was solely associated with financial reporting that reflects reporting entities’ financial health over a period. However, financial reporting remains incapable of introducing how reporting entities balance stakeholders’ interests, manage potential and existing risks, and add value to the community and the environment as well (SASB, 2017). Companies that presented their environmental& social policies and the impacts of their activities within their traditional financial reports started to prepare stand-alone reports by the late 1990s (Gray & Milne, 2007). ‘Corporate Sustainability Reporting’ (in short ‘Sustainability Reporting’) is the practice of disclosing and measuring corporate sustainability performance to internal and external stakeholders in conformity with the sustainable development goals. One of the biggest contributions that led to the acceleration of Sustainability Reporting and Sustainability Performance measurement was

⁸ <https://www.ceres.org/about-us> Accessed February, 2021

John Elkington's "Triple Bottom Line" which was introduced in 1997 in his book *Cannibals with Forks: The triple bottom line of 21st Century Business* (Milne & Gray, 2013). Companies are described as 'cannibals in capitalist economies where devouring rival companies is taken in stride' (Jeurissen, 2000: 229). 'Fork' is used as a metaphor for Corporate Sustainability which is seen as a means to shift to the new century's order. Referring to the traditional 'bottom line' term which signifies the total profit or loss of a company over a period stated in Income Statement, Elkington (1997) proposed drawing two additional lines –environment and society, besides the single bottom line which had been introduced by Luca Pacioli almost 500 years ago with the double-entry system of bookkeeping. The Triple Bottom Line (also known as 3Ps or 3BL) theory suggests managing environmental and social performances alongside economic performance in conformity with sustainable development agenda (Ashrafi et. al, 2018) and proposes a framework to measure and to report Corporate Sustainability activities. The 3 main dimensions of Corporate Sustainability -economy, environment and society are the key elements of increasing firm value by enhancing sustainable development (Alsayegh et. al, 2020: 1). The widespread abbreviation of the Triple Bottom Line- the '3Ps' is also used to signify People, Planet and Profit lines in accordance with the EES. The general representation of 3BL is depicted as follows:

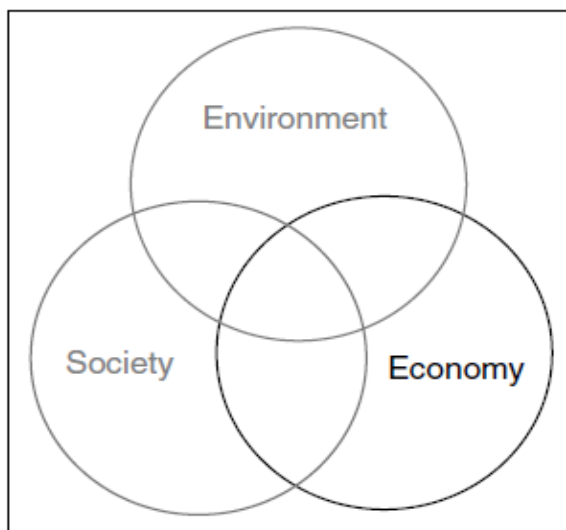


Figure 2: The Conventional Representation of the Triple Bottom Line

Source: Giddings, Hopwood, & O'Brien (2002: 189)

As seen above, three rings are drawn in the same size with symmetrical interconnection which signifies no superiority exists between these bottom lines. This figuration has been devastatingly critiqued by Giddings et. al, (2002). The authors argued that although the intersection of three lines depicts sustainability, the separate display of the lines can be interpreted as if they were autonomous and could substitute each other. Instead of overlapping circles, they developed nested circles (see **Figure 3**). Since the environment comprises both living and non-living beings, it is shown as the largest set. Society as the living-beings of the environment constitutes the next line that embraces the economy as the last subset. Although the economy takes part in the middle of the diagram, this doesn't imply that it is the most significant line; on the contrary, it is dependent on all other components (Giddings et. al, 2002: 191,192).

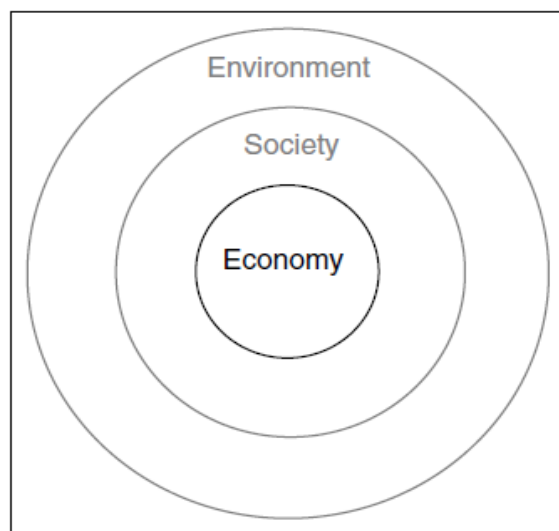


Figure 3: Nested Lines of the Triple Bottom Line

Source: Giddings, Hopwood, & O'Brien (2002: 192)

Elkington (1997) discussed whether the transition to sustainability that requires more or less altruism was possible in capitalist economies and highlighted the need for a revolution in 7 main domains: *markets, values, transparency, life-cycle technology, partnerships, time and corporate governance*. Therefore, the TBL suggests measuring the success of companies and managers not by traditional bottom-lines in the financial statements, but by the value they add to their environment and society. Since the TBL covers non-financial operations in measurement, it is inherently connected to the Stakeholder Theory (Hubbard, 2009;

Baumgartner, 2014; Chang et. al, 2017). As embedded in the rationale, short-term profit motive contradicts the concept of sustainability which calls for future-oriented solutions (Dyllick & Hockerts, 2002). Developed by Elkington in 1997, Dyllick & Hockerts (2002) elaborate 3 capital types required to be employed in the TBL measurement:

- *Economic capital:* known from the conventional accounting calculation, capital is calculated by subtracting liabilities from assets. Company is assumed to be going concern in a foreseeable future as long as it can realize assets and fulfill obligations. Although company declares bankruptcy when capital remains deficient, it becomes unsustainable earlier (p. 133). However, an economically sustainable company assures sufficiency of cash flows over a period of time to procure liquidity while generating returns demanded by shareholders (p. 133).
- *Natural capital:* in a broader concept, it comprises all living organisms and living spaces where company is established and operating. Ecologically sustainable company doesn't carry on a company that is a detriment to the environment which boosts its own sustainability as soon as ensures the sustainability of its operating place and resources correspondingly (p. 133).
- *Social capital:* Socially sustainable company creates value by receiving approval from shareholders with business strategies related to human resources management such as improving talents and retaining competent employees whereas it contributes to the welfare of its society with civil services (p. 134).

Although the TBL made a breakthrough in the Corporate Sustainability research field, Elkington himself revisited the TBL in 2018 with his article “*25 Years Ago I Coined the Phrase ‘Triple Bottom Line’*”, published in Harvard Business Review, in order to update the concept to the developments in the intervening time and to set the record straight. Complaining of the misinterpretation of the concept over the years, Elkington (2018) argued that TBL was eroded by accounting and reporting applications but in fact, it was intended to bring a fresh perspective to the evolution of the current economic system in the interest of future generations. Despite deviation from its original purpose, TBL served to development of various accounting and reporting frameworks, methods and tools of Corporate Sustainability such as Environment, Social and Governance (ESG), full cost accounting; Integrated Reporting; the Environmental

Profit & Loss approach and so forth (Elkington, 2018). This thesis will more specifically focus on Corporate Sustainability literature and reporting based on ESG factors, as will be introduced in the next section.

2.1.2. Environmental, Social and Governance (ESG) Criteria

The unveiling of accounting scandals and fraud cases such as Enron, WorldCom, Parmalat and Tyco in developed countries at the end of the 20th century caused the global economy to lose billions of dollars, swept their savings and retirement funds away and made tens of thousands of people to get sacked. The breach of confidence in capital markets and concerns about the independence of accounting firms have risen the importance of investors' protection. Consequently, corporate governance has become a vital factor in enabling organizations to use their resources effectively and monitoring management performance objectively for the interest of all stakeholders while improving financial performance. Corporate governance secures the right of all stakeholders by creating the environment of trust based on society's moral and ethical values and monitors management actions and decisions by internal control mechanisms (Aras & Crowther, 2008). The widespread demand for corporate governance information in addition to environmental and social disclosures led to the consideration of the 'Environmental, Social and Governance' ('ESG' hereinafter) criteria. Since the long-term financial performance is a sine qua non for companies, the 'Governance' criterion replaces the 'Economy' unlikely the TBL approach (Beckmann et. al, 2014: 22).

The term 'ESG' was first used in the report '*Who Cares Wins*' published by the UN Global Compact, the International Finance Corporation and the Swiss government in 2005 which was endorsed by various financial institutions, regulators, companies, investors, pension fund trustees, stock exchanges and non-governmental organizations (NGOs) from all over the world. Initiated by the UN Secretary- General, Kofi Annan, the report calls all key financial actors "*to contribute better investment markets as well as to the sustainable development, (...) to improve understanding and consideration of these (ESG) trends and related potential impacts, (...) and to be transparent with regard to the nature and timing of new regulations concerning ESG issues relevant to investment*" (United Nations Global Compact, 2005: 5). As stated by the United Nations, the ESG criteria are considered as the fundamental elements to establish sustainable companies so that improvement in efficiency, gain in corporate reputation and superiority over rival companies can be acquired (Alsayegh et al., 2020: 2). ESG- based

business strategies enhance competitive edge while ameliorating corporate reputation and result in an increase in firm value (Alsayegh et al., 2020).

Alsayegh et. al, (2020: 3) indicate that the first dimension (*environment*) of the ESG criteria embodies practices related to the protection of ecological balance such as carbon emission, waste management and climate change. They continue with the following dimension (*society*) which discloses information on all internal and external stakeholder engagements - working conditions, labor safety, supply chain and customer relationship management systems. The last dimension (*governance*) reflects organizational culture, the structure of Board of Directors, tone at the top, code of conduct and other management issues. **Table 1** lists some of the ESG criteria below:

Table 1: ESG Criteria

Environmental Issues	Social Issues	Governance Issues
Climate change and carbon emissions	Customer satisfaction	Board composition
Air and water pollution	Data protection and privacy	Audit committee structure
Biodiversity	Gender and diversity	Bribery and corruption
Deforestation	Employee management	Executive compensation
Energy efficiency	Community relations	Lobbying
Waste management	Human rights	Political contributions
Water scarcity	Labor standards	Whistleblower schemes

Source: CFA Institute (2015: 4)

Following the Millennium Summit held in New York in 2000, the United Nations announced Millennium Development Goals (MDG) that were planned to be achieved by 2015. The eight MGD goals that were committed by 191 United Nations members were to (UNDP, n.d.)⁹:

1. eradicate extreme poverty and hunger
2. achieve universal primary education
3. promote gender equality and empower women

⁹ https://www.undp.org/content/undp/en/home/sdgooverview/mdg_goals.html Accessed March, 2021

4. reduce child mortality
5. improve maternal health
6. combat HIV/AIDS, malaria, and other diseases
7. ensure environmental sustainability
8. develop a global partnership for development

The United Nations Conference on Sustainable Development (UNCSD), also known as Earth Summit 2012 took part in Brazil as a 20-year follow-up to the Rio Summit held in 1992. Colloquially called the Rio+20, the conference published a non-binding report -“The Future We Want” to ‘renew our commitment to sustainable development and to ensuring the promotion of an economically, socially and environmentally sustainable future for our planet and for present and future generations’ (United Nations, 2012: 1)¹⁰.

In 2015 the United Nations General Assembly established the Sustainable Development Goals (SDGs) as a continuation of MDGs that were committed to being adopted by the end of 2030. 17 interlinked goals calls all countries for action to (United Nations, n.d):



Figure 4: The Sustainable Development Goals

Source: The United Nations

¹⁰ <https://sustainabledevelopment.un.org/content/documents/733FutureWeWant.pdf> Accessed March, 2021

In order for the SDGs to be realized by 2030, companies are required to accept and prioritize targets, create risk plans and contribute to the progress of development by reporting these activities. SDG- based Sustainability Reporting makes a connection among stakeholders, attracts investment opportunities, promotes decisions that create value by developing business strategies in accordance with the sustainable development (Global Reporting Initiative, 2018: 4).

Briefly, a sustainable company;

- establishes nature-friendly business processes in the entire supply chain -from design, production to logistics and marketing,
- encourages all employees to be a part of the sustainable business model by providing awareness-raising trainings,
- assures working conditions in accordance with fundamental human rights, creates human resources policies against all kinds of religion, language, race and gender discrimination,
- holds the Board of Directors and its committees responsible for foreseeing, monitoring, managing potential and current ESG risks and developing organizational strategies against breach of laws and corruption,
- provides easily accessible and reliable non-financial information for stakeholders,
- contributes to the creation of a better future through voluntary environmental and social activities.

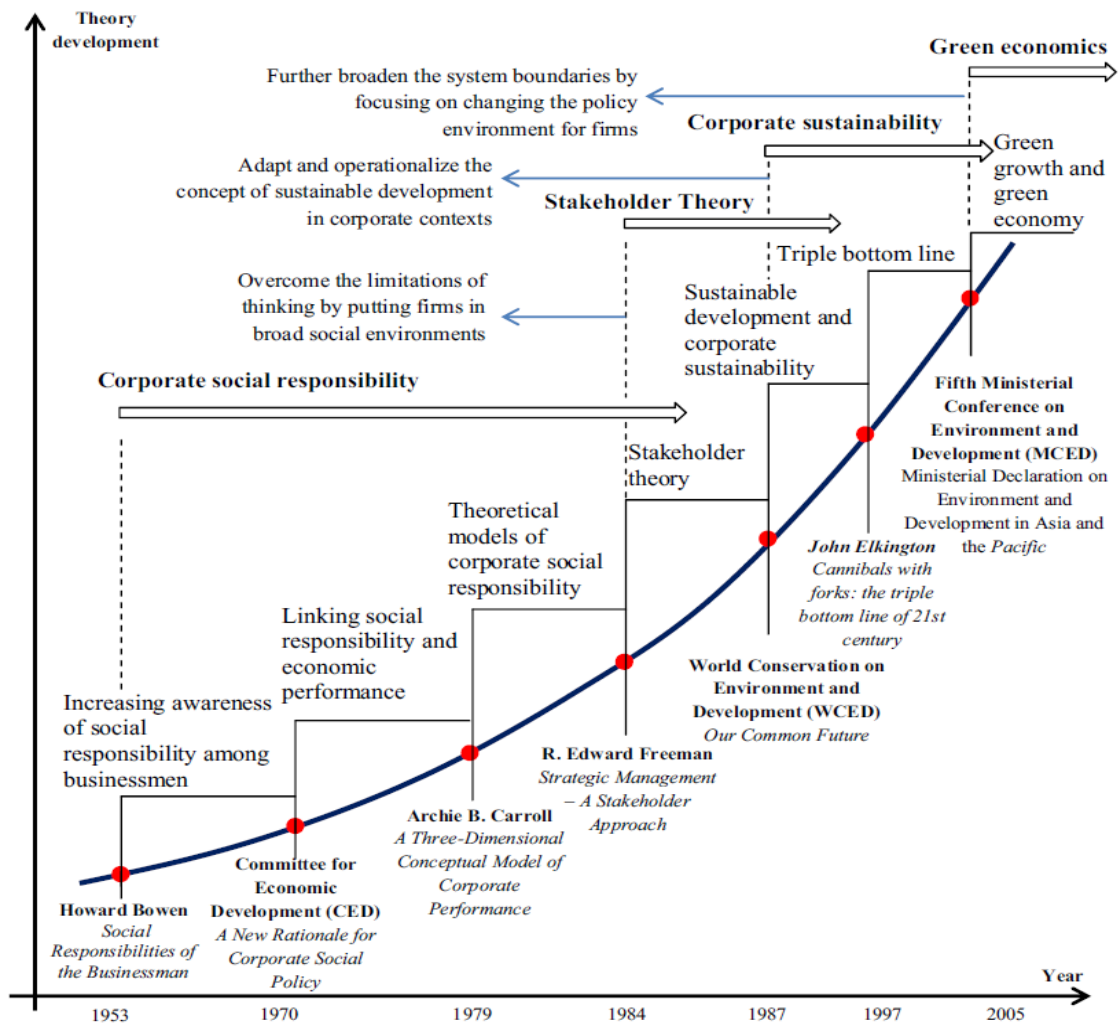


Figure 5: Historical Transition of the Business Mindset Through Corporate Sustainability

Source: Chang et al. (2017: 49)

This section has attempted to provide an overview of the conversion of the business mindset in a historical process. In summary, in the period up to the 1980s, there has been an increasing awareness of the need to pursue social concerns while achieving financial targets; whereas by the 1990s, businesses were expected to integrate ethical codes into their company visions together with business processes, and to be responsible and accountable to all their employees, customers, suppliers and shareholders. In the 2000s, businesses were required to conduct transactions by ensuring the ecological balance, to undertake to protect the rights of each stakeholder, and to disclose this information in a transparent manner. The **Figure 5** summarizes the process of corporate sustainability and transition to a carbon-free economy in the light of milestone events and theories.

Many initiatives around the world have been developing sustainability-related conceptual frameworks and standards which are non-binding and on a voluntary basis that aim to guide and support organizational activities to minimize and, eliminate (if possible) the issues arising from environmental, social and governance activities. The prominent sustainability reporting organizations which publish performance- related frameworks and standards are listed as follows:

2.1.2.1. Sustainability Accounting Standards Board (SASB)

The Sustainability Accounting Standards Board is an independent NPO that provides guidelines for companies to disclose their ESG-based material topics. Founded in 2011 by Jean Rogers, the SASB takes the mission to *“establish and improve industry specific disclosure standards across financially material environmental, social, and governance (ESG) topics that facilitate communication between companies and investors about decision-useful information”* (SASB, n.d.)¹¹. The SASB (SASB, 2017: 2) defines sustainability accounting as ‘measuring, managing, and reporting corporate activities that increase the ability of long-run value creating’.

The SASB Standards are set under 5 sustainability dimensions (SASB, 2017: 2,3):

- Environment
- Social capital
- Human capital
- Business model and innovation
- Leadership and governance

The SASB has released 77 standards as of 2021. The Board emphasizes reporting information that is (SASB, n.d.)¹²:

- Financially material,
- Industry-specific,
- Decision-useful,
- Cost- effective,
- Evidence- based and
- Market-informed.

¹¹ <https://www.sasb.org/about/> Accessed March, 2021

¹² <https://www.sasb.org/about/> Accessed March, 2021

2.1.2.2. International Integrated Reporting Council (IIRC)

The International Integrated Reporting Council (IIRC) is a global coalition founded in 2010 by investors, standard-setting bodies, private sector organizations and NGOs. The IIRC aims to offer an international framework that enables the public and private sectors to explain their practices to create, preserve or erode value for their stakeholders by means of integrated reporting (IR). The IIRC published the first 'Integrated Reporting Framework' in 2013 which was superseded by the 'International Integrated Reporting Framework' announced in January 2021 and will be effective as of January 2022 (International Integrated Reporting Council, 2021: 1). Integrated Reporting is described by the IIRC as *“a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term”* (International Integrated Reporting Council, 2021:10). Reporting entities are allowed to prepare their Integrated Reports either as a separate report or as a set including financial statements.

The IR Framework comprises 7 Guiding Principles to support reporting entities for preparing and presenting Integrated Reports (International Integrated Reporting Council, 2021:25):

- Strategic focus and future orientation
- Connectivity of information
- Stakeholder relationships
- Materiality
- Conciseness
- Reliability and completeness
- Consistency and comparability

2.1.2.3. Climate Disclosure Standards Board (CDSB)

The Climate Disclosure Standards Board (CDSB) is an independent NPO working to integrate climate-related information into corporate reporting. Established in 2007 at the World Economic Forum's (WEF) annual meeting in Davos, the CDSB Board is formed by members of CERES, the SASB, the WEF, Carbon Disclosure Project (CDP), the World Business Council for Sustainable Development (WBCSD), the International Emissions Trading Association (IETA), the Climate Registry and the World Resources Institute (WRI) (Climate Disclosure Standards Board, 2019: 1). The CDSB is committed to guiding reporting entities to disclose their impacts on natural capital that in turn enable investors, creditors and other organizations to allocate their financial capital and to evaluate environmental performance (Climate Disclosure Standards Board, 2019).

2.1.2.4. Carbon Disclosure Project (CDP)

The Carbon Disclosure Project is a non-profit organization launched in London in 2000 which provides one of the most extensive environmental reporting framework for companies, cities and governmental institutions to disclose through surveys how their actions impact on natural resources and mitigate environmental risks.

2.1.2.5. Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) is considered the leading standard and framework-setter on sustainability reporting (Dilling, 2010; Brown et. al, 2009). The GRI was established in Boston by the partnership of the CERES and Tellus Institute with the support of the UNEP in 1997 as an international independent NGO to provide sustainability standards for organizations willing to communicate their impacts. Set by the Global Sustainability Standards Board (GSSB), the GRI aims to promote the acceptance and the disclosure of sustainability reporting (Willis, 2003) that is intended to complement, not substitute financial reporting practices (Marimon et. al, 2012). The GRI enhances transparency and accountability of

organizations by offering a common language of sustainability reporting (GRI, n.d.)¹³ which is similar to that of the Triple Bottom Line (Gray, 2010).

The first version of GRI Guidelines (G1) was published in 2000 which is attributed as the first sustainability reporting framework, followed by the updates and improvements named G2 (2002), G3 (2006) and G4 (2013). The GSSB shifted from providing guidelines to publish the first global sustainability reporting standards in 2016 that superseded the G4 Guidelines. The set of standards are restructured into a set of modular standards that enables the standard-setter authority to revise modules without affecting the whole set providing convenience for sustainability reporting organizations. The GRI offers reporting entities adopting either core or comprehensive options to publish sustainability reports.

The GRI Standards are divided into 2 categories:

- Universal Standards
- Topic-specific Standards

The Universal Standards embody 3 standards that are used by every reporting organization focusing on material subjects:

- **GRI 101 Foundation:** includes 10 reporting principles that enable sustainability reporting entities to disclose how it has impacted its stakeholders and contributed to the sustainable development goals. Principles regarding report content (stakeholder inclusiveness, sustainability context, materiality and completeness) and principles regarding report quality (accuracy, balance, clarity, comparability, reliability and timeliness) are expected to make guidance for sustainability reporting entities for the application of the GRI Standards
- **GRI 102 General Disclosures:** provides contextual information about sustainability reporting entities' profile, sustainability strategies, corporate governance and business ethics
- **GRI 103 Management Approach:** comprises explanations about managerial considerations of the material topics with their potential impacts on the stakeholders' decisions. This standard is linked with the topic-specific standards in order to describe the materiality relevant to the economic, environmental and social information.

¹³ <https://www.globalreporting.org/about-gri/mission-history/> Accessed: March, 2021

Sustainability reporting entities use the Topic-specific Standards with their sub-standards that are deemed relevant to the material topics:

- **GRI 200 Economic**
- **GRI 300 Environmental**
- **GRI 400 Social**

Two approaches exist for adapting the GRI- Standards: reporting entities may use the Standards either as a (i) set that requires the application of the Universal Standards and the related Topic- Specific Standards or as a (ii) ‘GRI- referenced’ option that allows reporting entities to select certain indicators related to the material topic.

The GRI announced the Sector Program with the intention of maintaining more transparency that requires sector-based disclosures of reporting entities’ environmental, economic and social impacts. Released for public exposure, the draft calls reporting entities from 10 specified industries with the highest impacts to report ESG information. As of 2021, the Sector Program declared a pilot structure of the project for 3 industries¹⁴:

- i. GRI Sector Standards for Oil and Gas
- ii. GRI Sector Standards for Coal
- iii. GRI Sector Standards for Agriculture and Fishing

The GRI Standards provide a benchmark on sustainability reporting that enables non-financial information users to compare reporting organizations with each other by means of performance indicators –that are compatible with the principles of the UN Global Compact (Marimon et al., 2012).

¹⁴ <https://www.globalreporting.org/standards/sector-program/> Accessed: March, 2021

Table 2: Evolution of The Scope of Non-Financial Information

Period	Indicators	Stakeholders	Diffusion method
1960–1979	- Human resource tools - Philanthropic programmes	- Employees - Community where the organisation is located	- Internal - External, through marketing actions
1980s	- Structural transformation of the organisation - Behavioural codes	- Consumers - Shareholders and investors - Society - Government	- Specialised departments - Communicated in the financial report
1990s	- Environmental indexes - Social indexes	- Shareholders and investors - Society - Lobbies	- Communicated in the financial report - Environmental report - Social report
2000–present	- Development of environmental and social indexes - Standardised and certified international systems	- Shareholders and investors	- Environmental report - Social report - GRI - AA1000 - ISO26000

Source: Del Mar Alonso-Almeida, Llach, & Marimon, 2013: 320

The **Table 2** demonstrates the historical background of what to disclose, for whom to disclose, and how to disclose non-financial information. During the period when SR was first accepted as philanthropy, the non-financial information was used as a means of marketing tool to proclaim that employees' safety was assured, their salaries and insurance premiums were paid, and voluntary projects were conducted. As the stakeholder theory gained ever-increasing acceptance in the 1980s, non-financial reporting addressed to a wider group, and environmental contributions along with social actions were also disclosed and published as an appendix to the financial statements or as stand-alone reports. Nowadays, SR has started to be investor-oriented, ESG issues have been required to be disclosed within sustainability frameworks with the approval of official licenses.

3. ESG PRACTICES IN TURKEY

As a rapidly industrializing country and a member of G20 countries, Turkey has acknowledged the necessity of maintaining economic growth while protecting the environment and human rights. With the ever-increasing environmental and social awareness, many national non-governmental organizations (NGOs) have been established to increase awareness for the protection of natural values and the fight against the discrimination of gender, religion, ethnicity and nationality and host various international organizations, conferences and events to call other countries for action.

Turkey's greenhouse gas emissions (5,35%) are recorded below other G20 countries (average 7,32%) (Transparency, 2020: 1) but have been increased 110,4 % from 1990 according to the World Wide Fund for Nature ¹⁵. Turkey ranks 42th out of 61 countries at the overall Climate Change Performance Index 2021 – a scoring system to monitor climate protection performances of the most global carbon emitters in four categories: GHG emissions, renewable energy, energy use and climate policy (Burck et. al, 2021: 4). Although Turkey receives a very low rating for the climate policy category (58th) (p.15) which is consistent with the research of Climate Action Tracker in which Turkey received a critically insufficient score with an average warming of greater than 4°C¹⁶, the country ranks as the best performers for the renewable energy list (14th) (p. 11) and indicates a significant potential to take part in the carbon neutral economy. A recent report published by the UNDP (2020)¹⁷ which assesses and ranks 189 countries by the Human Development Index (HDI) according to the average achievement in the criteria of a long and healthy life, knowledge and a decent standard of living ranked Turkey at the 54th place in the very high category (p.345)¹⁸.

¹⁵ <https://www.wwf.org.tr/?4620> Accessed: April, 2021

¹⁶ <https://climateactiontracker.org/countries/> Accessed: April, 2021

¹⁷ <http://hdr.undp.org/sites/default/files/hdr2020.pdf>. Accessed: April, 2021

¹⁸ <http://hdr.undp.org/sites/default/files/hdr2020.pdf> Accessed: May, 2021

Turkey has become a party to several of conventions at both the global and regional levels to cooperate with other countries in tackling socio-economic and environmental problems. International and regional conventions that have been signed by Turkey (Ministry of Foreign Affairs, n.d.)¹⁹:

- United Nations Convention to Combat Desertification
- Convention on the Protection of the Black Sea Against Pollution (Bucharest Convention)
- United Nations Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol
- Convention on Biological Diversity
- The Convention for the Protection of the Marine Environment and the Coastal Region of the Mediterranean (Barcelona Convention)
- International Covenant on Civil and Political Rights
- International Covenant on Economic, Social and Cultural Rights
- Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment
- International Convention on the Elimination of All Forms of Racial Discrimination
- Convention on the Elimination of All Forms of Discrimination against Women
- International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families
- Convention on the Rights of the Child
- Convention for the Protection of Human Rights and Fundamental Freedoms as amended by Protocol No. 11 Rome, 4.XI.1950
- Protocol to the Convention for the Protection of Human Rights and Fundamental Freedoms
- Protocol No. 2 to the Convention for the Protection of Human Rights and Fundamental Freedoms, conferring upon the European Court

Additionally, large companies in the private sector have started to incorporate the universal SDGs into their corporate strategies. There has been a growing practice in corporate governance

¹⁹ <https://www.mfa.gov.tr/sub.en.mfa?cf805f3f-5f1b-47b7-8be8-48df98367122> Access: April, 2021
<https://www.mfa.gov.tr/sub.en.mfa?690ae1fb-2099-44cc-a4f8-925c62e1425a> Access: April, 2021

with the contributions of the Capital Markets Board (CMB) and the stock exchange Borsa Istanbul (BIST). Especially larger companies have been compelled to the ‘comply or explain’ approach, encouraged to establish audit, risk management, sustainability and ethics committees under the structure of boards of directors. Although no mandatory and/or binding regulation exists in the field of SR, an ever-increasing publication of SR including long-term corporate ESG strategies encourages hopes of future signs of progress.

The foremost advances in corporate governance practices in Turkey are as follows:

- Corporate Governance Code of Best Practice (2002)
- Corporate Governance Principles of Turkey (2003)
- Corporate Governance Compliance Report (2004)
- Istanbul Stock Exchange (ISE) Corporate Governance Index (2007)
- New Turkish Commercial Law (2011)
- Corporate Governance Communiqué (2014)
- BIST Sustainability Index (2014)

The rating authority for compliance with the Corporate Governance Principles is given to the rating agencies determined by the CMB, as a result of the evaluation of the companies’ compliance with all corporate governance principles. Companies are included in the Corporate Governance Index are required to score 7 out of 10 according to the degree of compliance to the Corporate Governance Principles. As of 2021, 52 companies are traded in the index²⁰.

BIST Sustainability Index has been launched in accordance with the cooperation agreement signed with Ethical Investment Research Services Limited (EIRIS) in 2014. BIST Sustainability Index aims to offer a benchmark of the highest ESG-performance companies and encourages all BIST- indexed companies to comply with the sustainability goals. The 58 BIST Sustainability Index constituents as of December 2020 are listed as below²¹:

²⁰ <https://www.borsaistanbul.com/en/sayfa/2202/corporate-governance-index> Accessed: April 2021

²¹ <https://www.borsaistanbul.com/en/sayfa/2227/sustainability-index> Accessed: April 2021

Table 3: BIST Sustainability Index Constituents as of December, 2020

1	AEFES	ANADOLU EFES	30	KRDMD	KARDEMİR (D)
2	AKENR	AK ENERJİ	31	LOGO	LOGO YAZILIM
3	AKBNK	AKBANK	32	MGROS	MIGROS TİCARET
4	AKSA	AKSA	33	NETAS	NETAS TELEKOM.
5	AKSEN	AKSA ENERJİ	34	OTKAR	OTOKAR
6	ALBRK	ALBARAKA TÜRK	35	PETKM	PETKİM
7	AGHOL	ANADOLU GRUBU HOLDİNG	36	PGSUS	PEGASUS
8	ANHYT	ANADOLU HAYAT EMEK.	37	POLHO	POLİSAN HOLDİNG
9	ANELE	ANEL ELEKTRİK	38	SAHOL	SABANCI HOLDİNG
10	ARCLK	ARCELİK	39	SİSE	ŞİŞE CAM
11	ASELS	ASELSAN	40	SKBNK	SEKERBANK
12	AYGAZ	AYGAZ	41	SOKM	SOK MARKETLER TİCARET
13	BİZİM	BİZİM MAGAZALARI	42	HALKB	T. HALK BANKASI
14	BRISA	BRISA	43	TSKB	T.S.K.B.
15	CİMSA	CİMSA	44	TATGD	TAT GIDA
16	CCOLA	COCA COLA İÇECEK	45	TAVHL	TAV HAVALİMANLARI
17	DOHOL	DOĞAN HOLDİNG	46	TKFEN	TEKFEN HOLDİNG
18	DOAS	DOĞUS OTOMOTİV	47	TOASO	TOFAS OTO. FAB.
19	ENJSA	ENERJİSA ENERJİ	48	TUPRS	TUPRAS
20	ENKAI	ENKA İNŞAAT	49	THYAO	TÜRK HAVA YOLLARI
21	EREGL	EREĞLİ DEMİR ÇELİK	50	TTKOM	TÜRK TELEKOM
22	FROTO	FORD OTOSAN	51	TTRAK	TÜRK TRAKTOR
23	GARAN	GARANTİ BANKASI	52	TCELL	TÜRKCELL
24	GLYHO	GLOBAL YAT. HOLDİNG	53	ULKER	ULKER BİSKUVİ
25	ISCTR	İS BANKASI (C)	54	VAKBN	VAKIFLAR BANKASI
26	ISDMR	İSKENDERUN DEMİR ÇELİK	55	VESTL	VESTEL
27	KERVİT	KEREVİTAS GIDA	56	VESBE	VESTEL BEYAZ EŞYA
28	KCHOL	KOC HOLDİNG	57	YKBNK	YAPI VE KREDİ BANK.
29	KORDS	KORDSA TEKNİK TEKSTİL	58	ZOREN	ZORLU ENERJİ

Source: Borsa İstanbul, 2021

4. CHARACTERISTICS OF SUSTAINABILITY INFORMATION

Accounting systems provide financial information through financial reports for management to plan budgets, allocate internal resources, monitor competitive advantage by comparison against rivals in the market; for potential and existing investors to make investment or divestment decisions; for financial institutions to assess the overall financial health and the creditworthiness for repayment of loans; for public authorities to calculate and collect corporate income tax on their income; for suppliers to evaluate repayment habits and duration in return for the goods and services purchased; for customers to estimate the availability of goods and services they need in the future and for employees to give insight about the tenure of service. Nonetheless, firm value differs from the measurements determined by financial statements since the added value of entities arising from their non-financial operations cannot be disclosed with financial records. The main purpose of Sustainability Reporting is to identify and quantify the intangible value that company creates for the continuity of its stakeholders as well as its environment (Alsayegh et al., 2020: 5) –and eventually of itself. In other words, Sustainability Reporting encompasses the impact of the ESG-based activities on the market value in the long term and gives decision makers intrinsic clues about future performance (SASB, 2017: 5). Therefore, the information disclosed through sustainability reports is required to be decision-useful for non-financial information users. The IASB describes the characteristics of useful financial information under the Conceptual Framework. The Conceptual Framework comprises qualitative characteristics of financial reporting that represent the qualitative characteristics useful in sustainability reporting (IFRS Foundation, 2020: 13). Information publicly disclosed by sustainability reports is expected to be compatible with the characteristics shown in **Figure 6**.

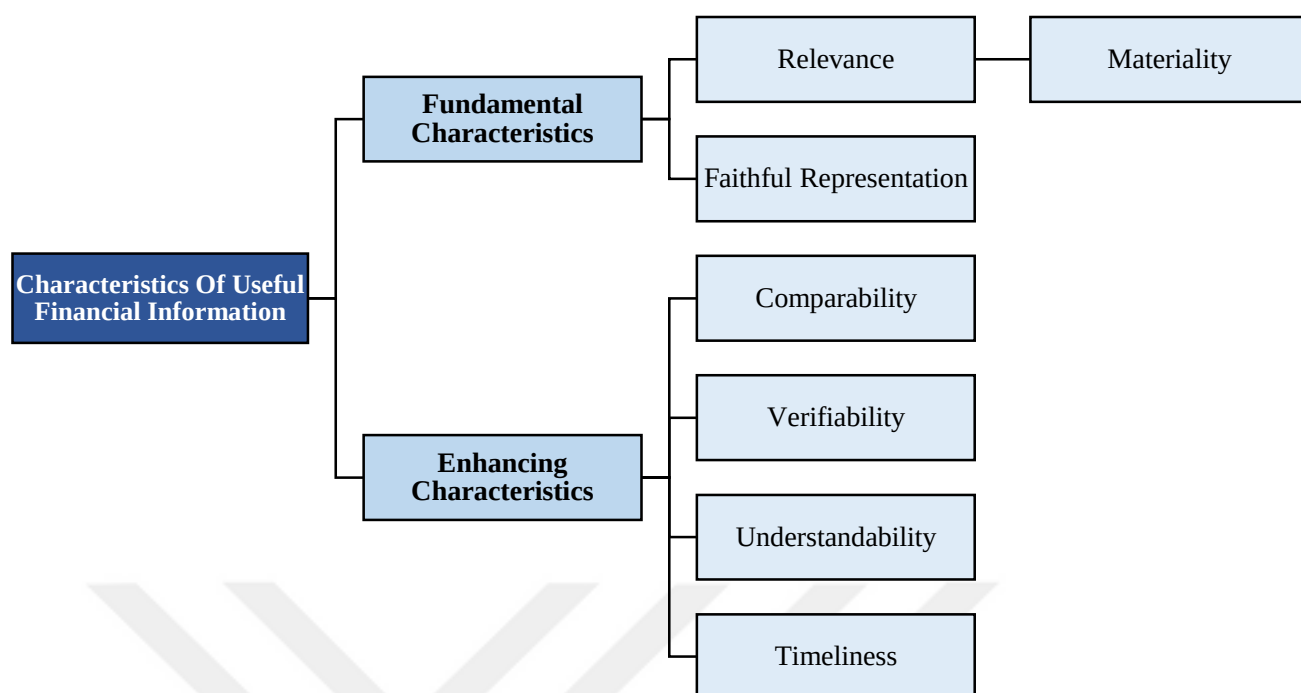


Figure 6: Characteristics of Useful Financial Information under Conceptual Framework

Source: The IASB (2018)

According to the Conceptual Framework, information is:

Table 4: Definitions of Characteristics of Useful Financial Information

Relevant	<i>if</i>	it is capable of making a difference to the decisions made by users
Material		if omitting, misstating or obscuring it could reasonably be expected to influence decisions
Faithfully Represented		it is complete, neutral and free from error
Comparable		enables users to identify and understand similarities in, and differences among, items
Verifiable		different knowledgeable and independent observers could reach consensus
Timely		it is available to decision-makers in time to be capable of influencing their decisions
Understandable		classifying, characterizing and presenting clearly and concisely make it understandable

4.1. Materiality

Thus far, it has been argued that while making investment decisions, investors should access timely, reliable, consistent and comparable ESG information disclosed to the public (Alsayegh et. al, 2020: 4). The sustainability- related frameworks and guidelines, as discussed in the previous section, all acknowledge material information -that may have a potential impact on economic decisions, the core principle of the ESG disclosure.

Table 5: Definitions of Materiality

if omitting, misstating or obscuring could reasonably be expected to influence decisions that the primary users of general purpose financial reports	IFRS
the omission or misstatement of an item in a financial report is material if, in light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item	FASB
misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements	AICPA
a fact is material if there is ‘a substantial likelihood that the . . . fact would have been viewed by the reasonable investor as having significantly altered the “total mix” of information made available	PCAOB

The substance of material information has been addressed by many accounting authorities in the field of financial reporting as shown in **Table 5**. According to the International Accounting Standard (IAS), the assessment of materiality must contain both quantitative and qualitative factors or a combination of both. Reporting entity is reasonably expected to disclose material non-financial information whether the current and/or potential ESG risks could affect even if reporting entity has not been exposed to such risks (IFRS, 2019: 4):

- The fair value of assets,
- The useful lives of assets,
- The impairment provisions,
- The discount rates used in calculation of future cash flows,
- The provisions and contingent liabilities due to penalties for non-compliance to regulations,
- The changes in expected credit losses for financial assets under IFRS 9.

Although reporting entities aim to convert their qualitative sustainability efforts to quantitative values (Busco et. al, 2020: 118), debates continue in the literature whether the information disclosed in sustainability reports meets the characteristics of useful financial information due to various limitations. These limitations have been discussed as follows:

a. Complexity of the Standardization

Firstly, the non-financial nature of the information disclosed in sustainability reports forms one of the most serious challenges. By definition, the non-financial information is a “*corporate disclosure intended to reflect different views, such as linking performance to CSR, corporate governance, strategy, management quality, operating efficiency, or intellectual capital ... relies on different performance measures from those used to measure financial performance (such as industry-specific indicators, qualitative indicators, job satisfaction, employee training, employee turnover, customer satisfaction, number of patents.)*” (Erkens 2015: 24).

Sustainability reporting standards are intended to enable information users to evaluate reporting entities’ sustainability performances with each other as well as with sectors over time (Eccles et. al, 2012). However, unlike financial information which is reported through universal accounting standards (US GAAP, IFRS etc.) in uniform financial statements (balance sheet, income statement etc.), the structure of non-financial information aggravates the efforts of standardization. Flöstrand and Ström (2006) critique that even though SR authorities establish guidelines for reporting entities how to report ESG information, the essence of ESG information cannot be accurately standardized. The authors conclude that the **relevance** of non-financial information may be arguable since it can be neither uniformed nor converted into universal formats like financial statements (p. 582).

b. Multitude of Frameworks

The existence of various international ESG frameworks (GRI, SASB, CDSB etc.) provides reporting entities the opportunity to adopt the most suitable reporting format. On the other hand, this plurality may obstruct the **comparability** of sustainability performance which is already compelling to be measured due to the lack of quantified indicators (Cardoni et. al, 2019). The lack of a generally accepted standards set for sustainability reporting may result in inconveniencing comprehension and interpretation of ESG information and deteriorate the **understandability** criterion.

c. Lack of Mandatory Assurance Engagements

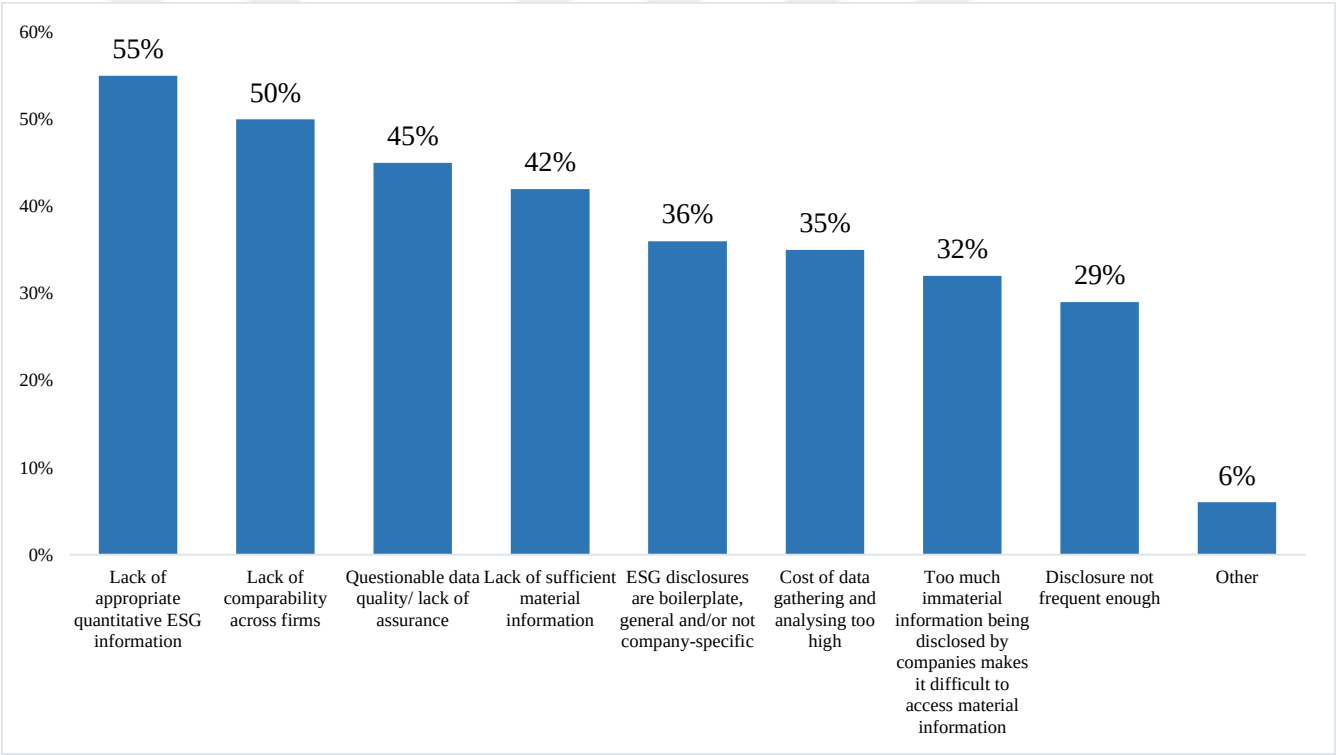
The rarity of assurance engagements on sustainability reports may constitute another drawback (Hubbard, 2009) As described in the International Standard on Assurance Engagements (ISAE) 3000, the objective of assurance engagements is to obtain either reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement (par. 10a). Even though reporting entity is not subject to mandatory assurance, management is allowed to outsource voluntary assurance services in order to improve the accuracy of the ESG information disclosed (Kolk & Perego, 2010). However, non-assured sustainability reports may meet neither the **verifiability** nor **faithfully representation** criteria because the credibility of information and the degree of confidence of the intended users (par.12a) are questionable.

d. Non- Availability of Information

The absence of a regular publication deadline and a publication frequency date of sustainability reports allows entities to publish their reports at any time they wish. This discretionary publication is likely not to match with the **timeliness** characteristic of useful information due to the fact that information may not be available in time to influence information users' decisions.

A survey conducted by the CFA Institute in 2017 on sustainability reporting corroborates the aforesaid limitations. With 1588 participants from the financial sector, it is concluded that the leading problems entities confront in terms of sustainability reporting are the absence of quantitative ESG data (55%), the inadequacy of comparability across other entities (50%), the unreliability of ESG information (45%) and the deficiency of sufficient material information (42%) (CFA Institute, 2017). Other answers include the lack of company-specific standards, the cost of disclosure, the difficulty of interpreting material information and the rarity of disclosure as shown in **Table 6**.

Table 6: Factors Limiting the Use of Non-Financial Information in Investment Decisions



Source: CFA Institute (2017: 18)

5. LITERATURE REVIEW

A growing body of literature has been investigating the association between financial performance and ESG disclosure. Despite much work carried out in the literature, debates still continue about the relationship between Sustainability Reporting (SR) and Financial Performance (FP) (Aupperle et al., 1985; McGuire, Sundgren, & Schneeweis, 1988; Hirigoyen & Poulain-Rehm, 2015; Laskar, 2018; Maqbool & Bakr, 2019). FP reflects a company's ability to achieve economic objectives over a period of time (Siminica, 2019).

As was discussed in the previous section, the elusiveness arises from the non-financial nature of sustainability which cannot be measured with any official criterion or indicator (Aupperle et al., 1985). The deficiency of accounting practices, analytical tools or quantitative methods precludes discriminating engaging companies from the others (Eilbirt & Parket, 1975). Various empirical studies have concluded that there is a positive link, negative link or no link between SR and FP. Earlier studies claim that engagement in SR accordingly multi-stakeholder approach enhances transparency whereas others find that shareholder value and corporate competitiveness are devastated due to additional costs (Ioannou & Serafeim, 2017). The mixed conclusions of previous researches are due to the different measurement techniques used to evaluate the link and/or the features of samples –such as size, sector, market, country of companies selected (Siminica, 2019).

Buallay (2019a) examines 342 financial institutions (including banks, together with investment and insurance companies) with the greatest sustainability efforts from 2007 to 2016. A linear regression model is established where ROA, ROE and Tobin's Q are used as the dependent variables. The research depicts that there is a negative relation between SR and FP. In their further studies, Buallay (2019b) observes 932 manufacturing companies and 530 banks from 80 countries over the period 2008-2017. The results show that the FP of the manufacturing sector is positively affected by SR whereas the banking sector is affected negatively.

Velte (2017) analyzes the impact of CSR implementation on stakeholder trust after the 2008 financial crisis –measured by several market and accounting-based variables by employing listed firms on the German Prime Standard over 2010-2014. They use ESG score as

the independent variable to test the changes in ROA as the accounting-based dependent variable and in Tobin's Q ratio as the market-based dependent variable. Their outcomes indicate that CSR implementation positively affects accounting-based measures while it has no significant association with accounting-based measures

Laskar (2018) uses content analysis with 36 listed nonfinancial Asian companies publishing sustainability reports in GRI format between the period of 2009-2014, then conducts logistic regression which reveals a positive impact on FP- especially in developed countries rather than developing ones.

Karaman et al (2018) investigate 284 GRI-reporting companies from the aviation sector between the years 2006-2015. FP is tested with multiple regression models (logistic regression, Poisson regression, ordered logistic regression and ordinary least squares regression). The findings point that SR has positive impact on firm size and leverage; although no significant impact is found on profitability and free cash flow per share.

P & Busru (2021) examine 386 companies listed in the Bombay Stock Exchange 500 Index during the period 2007-2016. They use ROA and Tobin's Q as the dependent variables which represent FP together with ESG scores and firm size, firm age, risk, cost of capital, firm growth, crisis and percentage of advertisement expenses to sales as the control variables. An inverse relationship is recorded between SR and FP which indicate that stakeholders in emerging market are either responsive nor aware of SR efforts of companies operating in India.

Girón et al. (2020) analyze 366 Asian and African companies published sustainability reports in 2017. They employ three models to investigate the link between SR and FP by addressing the SDGs. Firstly, they adopt logit model to test FP by using total assets, number of employees, market capitalization, taxation, earnings before interests, taxes, depreciation and amortization (EBITDA), profit margins, physical assets' market value to replacement value ratio, leverage, ROE and ROA as independent variables. The dependent variable is a binary variable which is valued '1' when reporting entity referred to the SDGs and '0' otherwise. The following model is constructed with dummy variable when entity's sustainability report is subject to external assurance. The last model consists of Tobin's Q as a variable of FP. The results indicate that companies operating in the manufacturing sector have a significant tendency to publish sustainability reports and to have external assurance services.

Liu & Anbumozhi (2009) observe 175 Chinese listed companies and listed the sample by industrial sectors for the year 2006. The dependent variable is chosen as environmental

information disclosure suggested by GRI where ROE is used as the control variable in contrast to earlier studies. The multivariate analysis reveals that polluter companies are prone to disclose their environmental information which has a positive impact on ROE.

Sierra et al. (2013) investigate the most 35 liquid companies listed on the Madrid Stock Exchange over the period of 2005-2010 to examine whether a significant relationship exists between assurance of sustainability reports and corporate variables. A logistic regression model is applied where industry and auditor are the independent variables and ROA, ROE, leverage and total assets are the control variables. The results show evidence that firm size has a significant positive impact on assurance of sustainability reports and ROE but a significant negative relationship is observed between firm size and ROA together with leverage.

López et. al. (2007) analyze the relation between CSR and financial performance by dividing the sample into two groups: the first consists of 55 CSR-engaged firms listed on the Dow Jones Sustainability Index and the latter includes 55 not-engaged firms quoted only on the Dow Jones Global Index during the years 1998-2004. Regression analysis is applied to test whether the independent variables such as revenue, ROA, ROE, cost of capital have an impact on FP measured by profit/loss before taxes. Leverage, size and industry are used as the control variables. The authors conclude that sustainability practices have a short-term negative impact on firm performance due to the additional expenses for CSR adoption.

Lourenço & Branco (2013) examine 233 leading Brazilian listed companies to investigate the determinants of sustainability performance in an emerging market. They use binary variable as the dependent variable to differentiate sustainability-engaged companies from others and use two sets of indicators as independent variables: the first includes ROE, total assets and price-to-book ratio and the latter comprises leverage, ownership structure and international listing. The logistic regression models reveal that the higher the sustainability performance, the higher the firm size and ROE but the lower the ownership concentration.

Ho & Taylor (2007) compare the impact of TBL reporting on 50 of the largest US and Japanese companies over a period of December 2003- January 2004. A multiple regression model is formed including TBL disclosure as the dependent variable; firm size (calculated by market capitalization), leverage, liquidity, ROA and industry as the explanatory variables. The findings indicate that contrastingly earlier studies, companies with lower liquidity and lower profitability are more likely to disclose TBL information. The authors also record that TBL

disclosure is greater for Japanese companies than US companies - highest for the manufacturing industry.

Han, Kim, & Yu (2016) investigate the relationship between ESG disclosure and FP of Korea Stock Market listed firms from 2008 to 2014. By taking environmental, social and governance scores into account separately as the dependent variables, they select ROE, market to book ratio (MBR) and stock returns as the proxy of measuring FP for the regression model. The empirical results show that there is a U-shaped relationship between environmental score and FP, a positive relationship between governance score and FP; whereas no statistically significant relationship between social score and FP. The U-shaped link identifies that the yield of environmental disclosure can be gained not immediately but after a certain period of time.

Another similar evidence is recorded by Wang et al, (2016) who study construction companies from different countries over the period of 2007-2013. The FP is tested by means of accounting measures ROA, ROE and EPS and market-based measures stock return and price/earnings (P/E) ratio. The panel data reveals a curvilinear relationship between CSR and FP but no statistically significant relationship is obtained between FP and market-based variables.

Barnett & Salomon (2012) hypothesize a curvilinear relationship between FP and social performance and test the hypothesis on a sample of 1214 firms between the years 1998-2006. The regression model is consisted of dependent variable measured with ROA, independent variables of environmental, social and governance performance and control variables such as firm size, debt ratio and research and development expenditures. They conclude a U-shaped relationship between ROA and social scores –which signifies an initial decrease in FP which turns into positive at a certain threshold. Furthermore, the firms with the highest CSR scores have significantly highest ROA than others.

Hongming et al. (2020) examine non-financial public Pakistani companies for the period of 2013-2017. After conducting content analysis, they apply two distinct regression models by construction a SR index based on three subindices: environment, health and safety, and social. ROA is used as a proxy of measuring FP whereas firm size and leverage are used as control variables. The findings indicate a significant positive impact of environmental and social indicators on FP but a weak significant impact of health and safety indicators on FP. Additionally, a significant association between firm size and FP is recorded but an insignificant association is obtained between leverage and FP.

6. RESEARCH

In literature, studies focusing on the relationship between SR and FP for emerging markets remain scarce (Lourenço & Branco, 2013). As a developing country, Turkey's climate policies lag behind developed countries due to the increasing environmental pollution proportionally to economic growth. However, with the increasing awareness of society, stakeholders are putting pressure on businesses to comply with global sustainability targets. Companies are now responsible not only for not emitting carbon from their production facilities and not to dispose hazardous chemical wastes into nature, but also to play an active role in voluntary projects against environmental pollution. In addition, they are under public scrutiny to guarantee safe and healthy working conditions for the employees, to undertake equal fundamental rights and fair remuneration, to prevent mobbing and glass ceilings, and to provide continuous training on these issues. Subsequently, previous corporate scandals, the strict corporate governance practices of the capital markets require companies to act transparently, fairly, accountably and responsibly and to disclose the composition of the board of directors, the number of independent and non-executive members, their policies against corruption and bribery, donation budget limits, and the mechanisms of ethics and sustainability committees. Hence, SR has been attracting considerable attraction in Turkish studies. However, the empirical findings for Turkish companies that investigated the association between SR and FP are generally inconsistent and contradictory (see Aksu & Kosedag, 2006; Kılıç, Kuzey, & Uyar, 2015; Kuzey & Uyar, 2017; Kılıç & Kuzey, 2019).

In case non-financial information disclosed in SR meets the criteria for useful information, therefore it is expected to have a significant impact on its FP. In other words, the FP of SR-engaged companies is likely to differ from the non-engaged ones. The purpose of this thesis is to test whether non-financial information has a significant impact on FP. With this regard, the research hypotheses are:

H0a: Sustainability reporting disclosure has no impact on ROA.

H1a: Sustainability reporting disclosure has positive impact on ROA.

H0b: Sustainability reporting disclosure has no impact on ROE.

H1b: Sustainability reporting disclosure has positive impact on ROE.

Where;

$$H_0: \widehat{\beta}_0 = \widehat{\beta}_1 = \widehat{\beta}_2 = \widehat{\beta}_3 = 0$$

$$H_1: \exists \widehat{\beta}_i \neq 0 \text{ } i=0, 1, 2, 3$$

a. Variables

FP has been generally measured by two different methods: accounting-based and market-based. Accounting-based indicators reflect internal efficiency (Hirigoyen & Poulain-Rehm, 2015; Van Beurden & Gössling, 2008) such as profitability, liquidity and leverage resulting from company's own asset/liability management. On the other hand, the value that market participants are willing to pay for company's shares is determined by market-based approach (Barauskaite & Streimikiene, 2021).

The variables used in the model are accounting-based measurements that are considered the principle methods of evaluating FP (Cochran & Wood, 1984). Despite reflecting the perception of current and future investors' perceptions, market-based indicators may cause misinterpretation due to other macroeconomic factors (López et al., 2007) and subject to various parameters to be attributed to FP alone (Wang et al., 2016). Many previous studies exist measuring the link between SR and FP employed Return on Asset (ROA), Return on Equity (ROE) and Earnings per Share (EPS) in the literature (Albertini, 2013) since accounting indicators are highly correlated with FP compared to market-based indicators (Orlitzky, et. al, 2003).

Return on Assets (**ROA**) is one of the foremost accounting-based variable which represents the profitability of the company relative its total assets (Velte, 2017). ROA is considered to be a standard in the CSR literature and a widely used measure of FP (Barnett & Salomon, 2012). Return on Equity (**ROE**) is an essential profitability indicator to compare sampled companies operating in the same industry (Sierra et. al, 2013). **Firm size** is a potential factor reflecting a company's FP and calculated by the logarithm of the total assets. **Leverage** is the ratio of total debts to total assets. Leverage imposes discipline upon managers and incentivizes them to make decisions that are in the best interest of the firm whereas decreases

managerial latitude and limits the engagement of activities other than profit-driven (Barnett & Salomon, 2012).

ROA and ROE were used as a proxy of the measurement of FP which consisted of the dependent variables. Dummy variable is a categorical variable and takes the value '1' if company publishes any form of SR (GRI, IR, CDSB, SASB etc.) and takes the value '0' otherwise. Firm size often gives preunderstandings of a company's overall performance. Companies with larger sizes are expected to disclose more SR compared to others since they face larger ESG issues and are liable to a larger scale of stakeholders (Artiach et. al, 2010). Leverage is the level of indebtedness in companies' capital structure other than equity. Companies with a higher leverage ratio are expected to publish SR less frequently or not at all due to costs of disclosure and higher claims of debtholders (Artiach et al., 2010).

b. Sample

The initial sample included the 33 companies indexed in the BIST Metal Products Machinery (XMESY) during the years 2009-2018. This industry provides a convenient research setting as it is a highly sensitive industry for environmental pollution which makes this industry be on the public spotlight. Observations begin after the recent global financial maelstrom as it does not analyses to be adversely affected by the aftermaths of the crisis. Furthermore, observations belonging to the last two years (2019 and 2020) are excluded from the sample to mitigate adverse and extraordinary impact of Coronavirus (COVID-19) on FP. Metal production is a highly sensitive sector for environmental pollution and can be hazardous when leaked into the soil, water and exhausted into the atmosphere during mining and smelting processes. The financial data were manually collected from the annual independent audit reports which were publicly available at the Public Disclosure Platform (KAP). SR were gathered from companies' websites and any form of SR (GRI, SASB, CDP, CDSB etc.) was added to the sample. 7 companies were excluded from the sample due to the lack of financial data for the research period. The final sample was composed of 25 companies which indicates that 76% of the index was subjected to the analysis with 250 observations. Since the sustainability reports of a year are published in the beginning of the following year, it was investigated whether SR has significant impact on FP of the subsequent year. Moreover, in the case when companies that published 2-year sustainability reports; the first year was neglected

since no report was published in the relevant year that could not affect the FP. 4 out of 25 companies have published SR which is equal to 16% of the final sample.

Table 7: Final Sample

Code	Company Name	Code	Company Name
ALCAR	Alarko Carrier Sanayi Ve Ticaret A.Ş.	KATMR	Katmerciler Araç Üstü Ekipman Sanayi Ve Ticaret A.Ş.
ARCLK	Arçelik A.Ş.	KLMSN	Klimasan Klima Sanayi Ve Ticaret A.Ş.
ASUZU	Anadolu Isuzu Otomotiv Sanayi Ve Ticaret A.Ş.	MAKTK	Makina Takım Endüstrisi A.Ş.
BFREN	Bosch Fren Sistemleri Sanayi Ve Ticaret A.Ş.	OTKAR	Otokar Otomotiv Ve Savunma Sanayi A.Ş.
DITAS	Ditaş Doğan Yedek Parça İmalat Ve Teknik A.Ş.	PARSN	Parsan Makina Parçaları Sanayi A.Ş.
EGEEN	Ege Endüstri Ve Ticaret A.Ş.	PRKAB	Türk Prysmian Kablo Ve Sistemleri A.Ş.
EMKEL	Emek Elektrik Endüstrisi A.Ş.	SILVR	Silverline Endüstri Ve Ticaret A.Ş.
EMNIS	Eminiş Ambalaj San. Ve Tic. A.Ş.	TMSN	Tümosan Motor Ve Traktör Sanayi A.Ş.
FMIZP	Federal-Mogul İzmit Piston Ve Pim Üretim Tesisleri AS	TOASO	Tofaş Türk Otomobil Fabrikası A.Ş.
FROTO	Ford Otomotiv Sanayi A.Ş.	TTRAK	Türk Traktör Ve Ziraat Makineleri A.Ş.
GEREL	Gersan Elektrik Ticaret Ve Sanayi A.Ş.	VESBE	Vestel Beyaz Eşya Sanayi Ve Ticaret A.Ş.
IHEVA	İhlas Ev Aletleri İmalat Sanayi Ve Ticaret A.Ş.	VESTL	Vestel Elektronik Sanayi Ve Ticaret A.Ş.
KARSN	Karsan Otomotiv Sanayi Ve Ticaret A.Ş.		

c. Empirical Model

Regression analysis is the most commonly used statistical method to investigate the relationship between two or more variables. Analysis with a dependent and an independent variable is referred to simple linear regression; whereas, when two or more explanatory variables are used to test the relationship with the dependent variable, it is called multiple linear regression analysis. Panel data analysis is applied over multiple times and over multiple entities. A common model of panel analysis is as follows:

$$Y_{i,t} = \alpha_{i,t} + \beta_{i,t}X_{i,t} + \varepsilon_{i,t}$$

Where;

$Y_{i,t}$: dependent variable

$\alpha_{i,t}$: y-intercept

$X_{i,t}$: independent variable

$\beta_{i,t}$: slope coefficient

$\varepsilon_{i,t}$: error term

t : time

i : cross-section units

The proposed models attempted to test the link between SR and FP:

$$ROA_{i,t} = \alpha_0 DUMMY_{t-1} + \alpha_1 SIZE_{i,t} + \alpha_2 LEVERAGE_{i,t} + u_{i,t}$$

$$ROE_{i,t} = \alpha_0 DUMMY_{t-1} + \alpha_1 SIZE_{i,t} + \alpha_2 LEVERAGE_{i,t} + u_{i,t}$$

Table 8: List of the Variables

Variable Type	Variable	Symbol	Definition
Dependent	Return on Assets	ROA	Net Income/ Total Assets
Dependent	Return on Equity	ROE	Net Income/ Equity
Categorical	Dummy	DUMMY	‘1’ presence of SR ‘0’ absence of SR
Control	Firm Size	SIZE	Logarithm of Total Assets
Control	Leverage Ratio	LEVERAGE	Total Debts/ Total Assets

The research model is illustrated as shown in **Figure 7**:

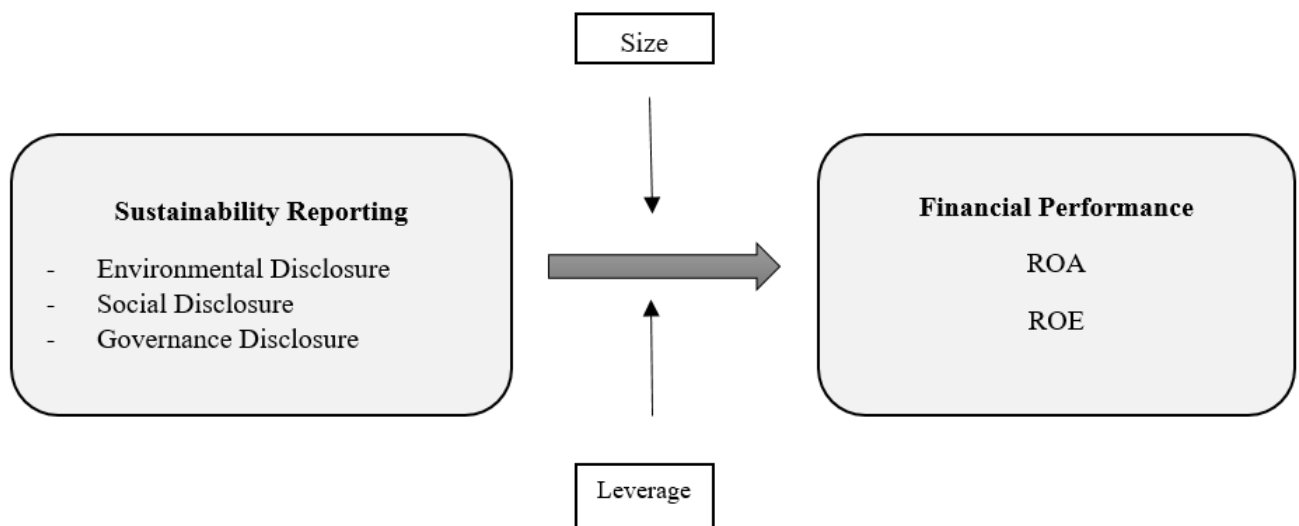


Figure 7: Research Model

d. Results

Table 9 represents the descriptive statistics of the research. The mean of ROA is 0.052 and the mean of ROE is 0.089 whereas the standard deviation of ROA is 0.116 and the standard deviation of ROE is 0.452.

Table 9: Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	250	.0525238	.1159503	-.3281538	.5086539
ROE	250	.0894777	.4518684	-3.929965	1.942136
SIZE	250	1.92e+09	3.90e+09	2.16e+07	2.84e+10
LEVERAGE	250	.5779462	.2561795	.0530751	1.6555

Before performing panel data regression, the Levin-Lin-Chu unit root test was applied to determine whether the series are stationarity. The null hypothesis (H0) of the Levin-Lin-Chu unit root test states that the panel series contains a unit root, while the alternative hypothesis (H1) states that the panel data is stationary.

Table 10 shows findings of the Levin-Lin-Chu unit root test. The adjusted t* p-values for ROA without trend (0.000) and with trend (0.000) are significantly less than 0.05. for ROE, the adjusted t* p-values without trend (0.000) and with trend (0.000) are also significantly less than 0.005. Similar results were also recorded for LEV ((0.0002) without trend and (0.000) with trend). The findings demonstrate that the null hypothesis of the unit-root test is rejected and concludes that the series are stationary except SIZE.

Table 10: Levin- Lin- Chu test for stationarity

Adjusted t*	ROA	ROE	SIZE	LEVERAGE
Trend Not- Included	-4.666 (0.0000)	-4.001 (0.0000)	9.679 (1.0000)	-3.558 (0.0002)
Trend Included	-11.451 (0.0000)	-8.465 (0.0000)	0.721 (0.7647)	-7.082 (0.0000)

Note: (...) represent the significance levels of the test

Later, the Hausman test was applied for endogeneity with two static panel approaches: fixed-effects, and random-effects models. Under the null hypothesis (H0) the estimators are consistent and significant to the model; whereas under the alternative hypothesis (H1) the estimators should have differing probability limits. The fixed-effects model analyzes the impact of variables that change overtime, and time-invariant characteristics are assumed to be unique to each entity and therefore should not be correlated with other individual characteristics.

Hence, the random-effects model was also used to allow the estimation of effects for time-invariant variables.

Table 11 presents the result of the panel data regression to predict the relationship(s) among the dependent variable (ROA) the dummy independent variable (SR) and the control variables (SIZE AND LEV). The Hausman test provides evidence of the acceptance of the null hypothesis since the Prob> chi2 values for n-regressors (0.7147) and (n-1) binary regressors (0.7881) are greater than 0.05 that leads to the random-effects model that the differences in coefficients are not systematic. Additionally, the results of the $p > |z|$ values for SR (for n-regressors 0.660 and n-1 binary regressors 0.793) and SIZE (for n-regressors 0.234 and n-1 binary regressors 0.877) indicate a statistically insignificant impact of SR and SIZE on ROA for the sampled Turkish firms, but a statistically significant impact of LEV (for n-regressors 0.000 and for n-1 binary regressors 0.000) on ROA.

Table 11: Panel Regression between ROA and SR

	n-regressors		n-1 binary regressors	
	Fixed Effects Model	Random Effects Model	Fixed Effects Model	Random Effects Model
$\widehat{\beta}_0$ (cons)	0.1759 (0.000) ***	0.1803 (0.000) ***	0.0071 (0.276)	0.0084 (0.127)
$\widehat{\beta}_1$ (DUMMY)	0.0074 (0.786)	0.0115 (0.660)	0.0029 (0.923)	-0.0050 (0.793)
$\widehat{\beta}_2$ (SIZE)	2.5100 (0.331)	2.7900 (0.234)	2.9300 (0.741)	1.0900 (0.877)
$\widehat{\beta}_3$ (LEVERAGE)	-0.2231 (0.000) ***	-0.2323 (0.000) ***	-0.3230 (0.000) ***	-0.308 (0.000) ***
F test Prob>F	0.0000	.	0.0000	.
Hausman Test	Prob > chi2 = 0.7147		Prob > chi2 = 0.7881	

Note: *, **, *** indicate that the estimates are significant at 10%, 5% and 1% margins of error, respectively.

Table 12 presents the result of the panel data regression to predict the relationship(s) among the dependent variable (ROE) the dummy independent variable (SR) and the control variables (SIZE AND LEV). The Hausman test provides evidence of the acceptance of the null hypothesis since the Prob> chi2 values for n-regressors (0.7723) and (n-1) binary regressors (0.6817) are greater than 0.05 that leads to the random-effects model that the differences in coefficients are not systematic. Additionally, the results of the $p > |z|$ values for SR (for n-regressors 0.482 and n-1 binary regressors 0.919) and SIZE (for n-regressors 0.513 and n-1 binary regressors 0.880) indicate a statistically insignificant impact of SR and SIZE on ROE for the sampled Turkish firms whereas LEV provides mixed results (for n-regressors 0.173 and for n-1 binary regressors 0.040).

Table 12: Panel Regression between ROE and SR

	n-regressors		n-1 binary regressors	
	Fixed Effects Model	Random Effects Model	Fixed Effects Model	Random Effects Model
$\widehat{\beta}_0$ (cons)	0.1460 (0.130)*	0.1814 (0.077)*	0.0229 (0.515)	0.0258 (0.376)
$\widehat{\beta}_1$ (DUMMY)	0.0706 (0.631)	0.0962 (0.482)	0.0026 (0.987)	-0.0103 (0.919)
$\widehat{\beta}_2$ (SIZE)	6.0200 (0.663)	7.7401 (0.513)	1.3702 (0.773)	5.600 (0.880)
$\widehat{\beta}_3$ (LEVERAGE)	-1.4693 (0.403)	-0.2008 (0.173)	-0.9001 (0.003)***	-0.779 (0.004)***
F test Prob>F	0.7582	.	0.0331	.
Hausman Test	Prob > chi2 = 0.7723		Prob > chi2 = 0.6817	

Note: *,**,*** indicate that the estimates are significant at 10%, 5% and 1% margins of error, respectively.

e. Discussions

The empirical study investigated the relationship between SR and FP for 25 Turkish companies that were indexed in the BIST Metal Products Machinery (XMESY) between the years 2009-2018. The FP was measured by accounting-based indicators –ROA and ROE, and LEV together with SIZE was also used as the control variables. The financial data were obtained from sampled companies' financial statements that were published in KAP and sustainability reports were collected from companies' websites. The panel regression analysis was analyzed through the use of Stata. Firstly, the series was subjected to the Levin-Lin-Chu unit root test for stationarity. Thereafter, the Hausman test was used to evaluate whether the model corresponded to the data. The analysis revealed a statistically insignificant relationship between ROA and SR but a statistically significant link between ROA and LEV -which led to the acceptance of the null hypothesis under which no relationship between ROA and SR was expected. The second Hausman test presented a statistically insignificant relationship between ROE and SR which also deduced to the acceptance of the null hypothesis. In other words, no significant association was observed between SR and FP –measured by either ROA or ROE. Additionally, SIZE had no significant link either with ROA nor with ROE. Nevertheless, LEV had a statistically association with ROA but had a mixed association with ROE. To sum up, SR has no significant association with both accounting-based performance measures-which leads to the conclusion that non-financial information reported in SR does not fulfill the qualitative characteristics of useful information. As ancillary findings, SIZE has no significant impact on FP while LEV negatively affects FP at conventional significance levels.

It is plausible that a number of limitations could have influenced the results obtained. First, this research has a limited sample size which narrows the generalizability of the findings. Secondly, this analysis only covers one country. Future research could include a broader literature such as comparison of countries with mandatory disclosures to voluntary disclosures, emerging markets to developed markets or cross-sectors. Also more variables could be used in order to investigate whether any other factors influence SR practices such as market indicators, board composition, board size, free cash flows, EBIT. Future research can also expand the period of observation to increase the validity of findings.

The findings can be justified in two ways. As discussed in prior sections, the Turkish economy has been and still is struggling with financial instabilities and dramatic currency

fluctuations. The first reason may arise from the current economic circumstances where the profitability of companies varies substantially due to the atmosphere of uncertainty. In addition, companies that suffer large financing losses may not be willing to bear additional expenses such as the preparation of sustainability reports and assurance fees. In the second scenario –that is in the case where companies do not engage in SR by virtue of cost savings, companies may not find SR worth bearing additional expenses such as trainings and other preparation costs including audit fees. In other words, companies may think that the benefits wouldn't outweigh costs or create any added value if they think the information disclosed through sustainability reports isn't useful for stakeholders.

In November 2019, the IFAC (2019)²² has published a point of view that emphasized broadening the scope of corporate reporting in order for reporting entities to create and sustain value by enhancing trust in markets. In accordance with this notifications, many organization such as the European Commission, the International Organization of Securities Commissions (IOSCO), the International Monetary Fund (IMF) and the Institute of International Finance (IIF) have supported the establishment of sustainability practices in financial markets and launched initiatives to accelerate ESG disclosure (CDP, CDSB, GRI, IR, 2020). In September 2020, the most leading sustainability reporting framework and standard-setters – the CDP, CDSB, GRI, IR and SASB, have published statement of intent to collaborate towards a comprehensive corporate reporting. The institutions have acknowledged the confusion arising from the variety of frameworks and standards and announced cooperation to gain global legitimacy through regulatory authorities through communicating comparable, reliable and material ESG information by means of high-quality standards for demanding stakeholders (CDP, CDSB, GRI, IR, 2020: 3). They have claimed that corporate reporting consists of the 'building blocks' (CDP, CDSB, GRI, IR, 2020: 3) and therefore integrating sustainability reporting with financial performance will better reflect the added value created by the company.

In the most recent 5-year Trustees, the IFRS Foundation (Foundation) has published the Consultation Report on how to contribute to sustainability reporting to receive the expectations and needs of stakeholders as a result of increasing demand for sustainability reporting. The Foundation has emphasized the magnitude of the risks arising from climate change and stated the importance of capital markets being adapted to a low carbon economy. The Foundation has also acknowledged that the proliferation of voluntary frameworks and standard sets within the

²² <https://www.ifac.org/what-we-do/speak-out-global-voice/points-view/enhancing-corporate-reporting#toptab-3-role-of-accountancy-profession-in-enhancing-corporate-reporting> Accessed: May, 2021

scope of sustainability reporting induces complexity and causes ever-increasing costs which outweigh the expected benefits for reporting entities (IFRS Foundation, 2020: 6). In accordance with the mission of promoting transparency and accountability for capital markets to ensure long-term financial stability (par. 18), the Foundation has announced acceptance for cooperation to resolve issues in sustainability reporting by creating a coherent uniform standard-set. The Foundation has offered the creation of a new Sustainability Standards Board (SSB) to develop a global set of sustainability- reporting standards with the ‘climate-first approach’ (par. 23-24). The mission of the SSB has been proposed to be helping reporting entities to disclose material ESG information that would be relevant for a wide range of stakeholders to evaluate reporting entities’ sustainability performance (par. 46-48) by initially focusing on investors. The Foundation has also promoted sustainability information to be externally audited and assured just like financial information and declared alignment with the International Auditing and Assurance Standards Board (IAASB) (par 52-54).

CONCLUSION

For years, humanity had believed that nature would adapt to the uncontrolled industrialization by means of the 'invisible hand'. While the shareholder intimacy had made fortunes to company owners, the costs had been billed to future generations. However, for companies to be sustainable as the building blocks of the economy, the environment in which they operate and the stakeholders with which they conduct business relations must be sustainable as well. Although the concept of Corporate Social Responsibility had been accepted as charity works based on volunteerism in achieving the sustainability targets, it has turned into the duties that companies are expected to comply with within the course of time. Many international institutions have been and still are calling all countries for cooperation to act hand in hand for the achievement of environmental, social and economic goals. Companies operating in geographies where poverty, inequality and environmental problems are common cannot be expected to thrive like companies operating under fair business conditions.

The achievement of sustainable economic development forms not only an obligation for companies, but also creates a win-win situation. By increasing the operational efficiency in production facilities companies gain financial advantages, use limited raw materials effectively and minimize pollution at the same time. Providing equality in opportunity increases the satisfaction and motivation of employees, raises employee loyalty, and thus ensures the qualified human capital to be retained. The establishment of ethical rules and codes of conducts for every unit within companies minimizes the likelihood of corruption cases, encourages witnesses to speak out and guarantees the protection of whistleblowers, while ensures the protection of all foreign and minority owners' rights, and protects companies' resources by monitoring the top management.

Sustainability Reporting is one of the most important communication channels through which companies can disclose their ESG performances with both internal and external stakeholders. The main purpose of Sustainability Reporting is to ensure companies being responsible and accountable to stakeholders of the consequences of their business activities. Many non-profit organizations like GRI, SASB, CDP, CDSB, IIRC and so on play a major role in accelerating corporate reporting efforts by providing frameworks and standards for Sustainability Reporting. However, there is much progress to be made. In the previous sections,

it has been discussed that Sustainability Reporting still lacks uniform regulations which may pose obstacle for the non-financial information to be understood, compared, accessed when necessary, verified, faithfully represented or relevant. This thesis aims to question whether non-financial information disclosed through Sustainability Reports are useful –where the relationship between Sustainability Reporting and Firm Performance is investigated by accounting-based indicators. The quantitative analysis has concluded that Sustainability Reporting has no significant impact on Financial Performance of Turkish metal production and machinery companies. While the sample size and the observation period limit the generalizability of the results, the findings provide an empirical insight for an emerging country that may contribute to the literature. The ongoing cooperation initiatives of the leading Sustainability Reporting boards are believed to draw more attention to academic studies. Future work may provide a more comprehensive analysis by following current developments.

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