SUSTAINABILITY REPORTING BY U.S. CITIES: A REVIEW OF PRACTICE AND THEORY

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Abstract

This paper examines the state of sustainability reporting by local U. S. governments within the context of three frequently cited voluntary disclosure theories. Referencing the Global Reporting Initiative (GRI) reporting guidelines, 69 graduate accounting students evaluated 60 U.S. local governments' sustainability reports. The results provide evidence that local U. S. governments do not meet the minimum GRI reporting guidelines or provide for transparency in reporting.

INTRODUCTION

Paris, France played host to the 2015 United Nations Climate Change Conference from November 30th to December 12th of 2015. It was attended by 196 participants representing more than 55 countries. The conference culminated in a historical agreement to limit global warming to less than 2 degrees Celsius and underscored the increasing awareness of global sustainability.

According to the United Nations, "With more than half of humankind living in cities and the number of urban residents growing by nearly 73 million every year, it is estimated that urban areas account for 70 per cent of the world's gross domestic product, by 2050 it is expected that two-thirds of the world population will be living in urban areas."
(http://www.un.org/en/development/desa/news/population/world-urbanization-prospects-2014.html). The importance placed on urbanization is best demonstrated by UN Sustainability Development Goal Eleven which states, in part, "SDG 11 aims to make cities and human settlements inclusive, safe, resilient and sustainable" (http://sdgcompass.org/sdgs/sdg-11). Sustainability, as described in this context, encompasses more than the environment.

The Global Reporting Initiative (GRI) lists three general areas of indicators to measure sustainability: The environment, social responsibility and the economy. Regardless of which set of indicators are measured, measurement without reporting generates a gap in the system. General System Theory includes feedback in any system. Reporting or providing feedback facilitates action that may be used to maintain the status quo or to adjust the system to achieve defined goals.

McNamara defines a system as "a collection of parts unified to accomplish an overall goal. If one part of the system is removed, the nature of the system is changed as well."
(McNamara, "Historical and Contemporary Theories of Management", http://managementhelp.org/ management/ theories. htm, np, nd). Mele, Pels and Polese (2010) states "A fundamental notion of general systems theory is its focus on interactions. Another core tenet is the distinction between open, closed and isolated systems. In open systems there are exchanges of energy, matter, people, and information with the external environment. In closed systems there are no exchanges of information and matter, just exchanges of energy. In isolated systems there is no exchange of elements"(Mele, Pels, Polese, 2010, p. 127). An essential

element of an open system is feedback. Feedback is the mechanism that provides input to make decisions and leads to stabilization or modification of a system, generally in the form of monitoring and reporting results.

Currently, municipalities are not required to report on their sustainability efforts. The Global Reporting Initiative (GRI) is the dominant organization that accumulates and publishes databases of sustainability reports. A review of the GRI database reveals a scarcity of municipal sustainability reports. This paper, using a case assignment, examines the current state of sustainability reporting in the U.S. by local governments.

SUSTAINABILITY REPORTING FRAMEWORK

The GRI is widely regarded as the leader for sustainability reporting frameworks. Its database includes 8,337 organizations and 28,346 reports. The vast majority of these reports were prepared by for-profit organizations. The government sector has been poorly represented. In 2009, only 21 public agencies were listed in the GRI database. Currently, only five US cities are listed in the GRI database: Chicago, IL, Baltimore, MD, Beaverton, OR, Indianapolis, IN and Naperville, IL.

The reporting guidelines are made up of reporting principles which may be divided into two groups: (1) Principles for defining report content, and (2) principles for defining report quality. The purpose of reporting principles is to achieve transparency and sustainability reporting. The GRI guidelines states that these principles are to be applied by all organizations and does not differentiate according to the type of entity. The principles for defining report content are: Stakeholder inclusiveness, sustainability context, materiality, and completeness. The principles for defining report quality include: Balance, comparability, accuracy, timeliness, clarity, and reliability. This paper focuses on reporting qualities as defined by the GRI. A description of the reporting qualities is provided in Table One.

Table One
GRI G4 Reporting Principles and Qualities

Quality	Defined	Tests Applied
Balance	The report should reflect positive and negative aspects of the organization's performance to enable a reasoned assessment of overall performance.	The report discloses both favorable and unfavorable results and aspects. The information in the report is presented in a format that allows users to see positive and negative trends in performance on a year-to-year basis, The emphasis on the various aspects in the report is proportionate to their relative materiality.
Comparability	The organization should select, compile and report information consistently. The reported information should be presented in a manner that enables stakeholders to analyze changes in the organization's performance over time, and that could support analysis relative to other organizations.	The report and the information contained within it can be compared on a year-to-year basis. The organization's performance can be compared with appropriate benchmarks. Any significant variation between reporting periods in the aspect boundaries,

		scope, length of reporting period, or information covered in the report can be identified and explained. When they are available, the report utilizes generally accepted protocols for compiling, measuring and presenting information, including the information contained in the GRI Guidelines.
Accuracy	The reported information should be sufficiently accurate and detailed for stakeholders to assess the organization's performance.	The report indicates the data that has been measured. The data measurement techniques and bases for calculations are adequately described, and can be replicated with similar results. The margin of error for quantitative data is not sufficient to influence substantially the ability of stakeholders to reach appropriate and informed conclusions on performance. The report indicates

		which data has been estimated and the underlying assumptions and techniques used to produce the estimates, or where that information can be found. The qualitative statements in the report are valid on the basis of other reported information and other available evidence.
Clarity	The organization should make information available in a manner that is understandable and accessible to stakeholders using the report.	The report contains the level of information required by stakeholders but avoids excessive and unnecessary detail. Stakeholders can find the specific information they want, without unreasonable effort, through tables of contents, maps, links, or other aids. The report avoids technical terms, acronyms, jargon, or other content likely to be unfamiliar to stakeholders, and should include

		explanations, (where necessary) in the relevant section or in a glossary. The data and information in the report is available to stakeholders, including those with particular accessibility needs (such as differing abilities, language, or technology).
Reliability	The organization should gather, record, compile, analyze and disclose information and processes used in the preparation of a report in a way that they can be subject to examination and that establishes the quality and materiality of the information.	The scope and extent of external assurance is identified. The original source of the information in the report can be identified by the organization. Reliable evidence to support assumptions or complex calculations can be identified by the organization. Representation is available from the original data or information owners, attesting to its accuracy within acceptable margins of error.

globalreporting.org

https://g4.globalreporting.org/how-you-should-report/reporting-principles/principles-for-defining-report-quality/balance/Pages/default.aspx

VOLUNTARY REPORTING THEORIES

Why do local governments report on sustainability efforts? A review of the literature has revealed three voluntary disclosure theories that are most often referenced. The three theories, legitimacy theory, stakeholder theory, and institutional theory, all have roots in political economy theory. While all three theories provide some insight into voluntary disclosure, they are not independent. The theories are interactive and overlapping and together help to explain the motivations behind voluntary disclosure of sustainability efforts. No one theory explains why local governments report on sustainability.

Stakeholder Theory

Freeman defined stakeholders as "individuals, or group of individuals, with interest that may affect, or be affected by, an organization" (1984, p. 46). Freeman's (1984) original Stakeholder Theory discusses how business really works. Freeman's theory contends that, for any business to be successful, it has to create value for all stakeholders. The interests of any one stakeholder should not be considered in isolation. Management should consider the interest of all stakeholders.

Milton Friedman stated, "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, which is to say engages in open and free competition without deception or fraud" (Friedman, 1970, p. 55). Friedman's thesis can be modified to make it applicable to the public sector. For example, there is one and only one social responsibility of local governments, to use its resources to engage in activities designed to increase the quality of life of the stakeholders while demonstrating transparency in reporting.

Ben-Ner and Van Hoomissen (1991) introduced a concept of demand-side stakeholders. Stakeholders may be classified as high-demand or low-demand. High-demand stakeholders may be defined as those "who have the greatest interest in the organizations' products, and who have the time, expertise, and so on to engage in controlling them" (Abzug and Webb, 1999, p. 420). Abzug and Webb (1999, p. 416) further state that "By examining these relationships in the context of organizational and economic theories, we are able to derive a new, more comprehensive stakeholder theory of the relationships between nonprofit, for-profit, and government sectors". Gray, Kouhy & Lavers 1995b, p. 53) stated that "The corporation's continued existence requires the support of the stakeholder and their consent and hence the activities of the business are adjusted according to that approval. The more powerful the stakeholders, the more the company must adapt. Social disclosure is thus seen as part of the dialogue between the company and its stakeholders". Using stakeholder analysis, identification of high-demand and-low demand stakeholders can be achieved. Given the fiscal constraints of local governments, high demand stakeholders will receive more attention and thus receive the focus of voluntary disclosures.

Legitimacy Theory

Dowling & Pfeffer (1975, p. 122) defined legitimacy as: "...a condition or status which exists when an entity's value system is congruent with the value system of which the social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy". Suchman (1995, p.574) stated that legitimacy is "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions." Van de Laan (2009, p. 19) further points out that "organizational legitimacy is not a steady state but variable." This means that what

stakeholders consider legitimate, and consequently, what should or should not be reported on, varies with time and circumstances. Organizations must continuously monitor and adjust their behavior as norms and reporting practices vary. While the definitions of legitimacy may vary, each implies that stakeholders, as part of society, decide what is appropriate, what is of value and ultimately an organization's legitimacy status. One input into the stakeholders' evaluation of an organization's status is based upon what is being reported. If an entity deems itself falling out of legitimacy steps are taken to realign itself with societal norms.

The above definitions would seem to indicate that society determines what is of value and what should be reported. Stakeholders use the information disclosed by an organization to determine the degree of legitimacy maintained by the entity. The survival of an organization, in its current form, depends upon perspective of the stakeholders about information they deem important and relevant to their well-being. Deegan (2007, p. 132), in part, states, "Accounting is not considered to be put in place to favor specific interests where many classes of stakeholders have the power to influence various decisions by corporations, government and other entities."

Institutional Theory

Institutional theory has been used in several studies to explain sustainable activities and environmental management (Ball and Craig, 2010, Lounsbury, 1997, Hoffman and Ventresca, 1999, and Fowler and Hope, 2007). DiMaggio and Powell (1983) posit that organizational structure, which used to arise from the rules of efficiency in the marketplace, now arise in the institutional constraints imposed by the state and the professions. The efforts to achieve rationality in an environment of uncertainty and constraint lead to homogeneity of structure (institutional isomorphism). DiMaggio and Powell (1983, p. 149) continued with, "Isomorphism is a constraining process that forces one unit in a population to resemble other units that face the same set of

environmental conditions". They contend that there are, in fact, two types of isomorphism, competitive and institutional. Combined, these two types of isomorphism provide the foundation leading to competition for resources, political power, and institutional legitimacy. Institutional theory as discussed by DiMaggio and Powell (1983), consist of three forms of isomorphism, coercive, normative and mimetic. Coercive isomorphism occurs when pressure is exerted by stakeholders. Normative isomorphism results in changes stemming from societal norms. Mimetic isomorphism refers to organizations that attempt to mimic other organizations. Local governments are affected by the environment in which they operate. It may be argued that local governments are affected by all three types of isomorphism. Changes in local government sustainability reporting may be the result of pressures exerted by stakeholders (coercive isomorphism), the desire to conform rather than innovate (mimetic isomorphism) and the desire to meet stakeholders' expectations of societal norms.

TRANSPARENCY

The GRI website contends that all of the Quality Principles are fundamental for effective transparency. The quality of information enables stakeholders to make sound and reasonable assessments of performance, and take appropriate action. Tsei-tseimou states that "Transparency ensures that information is available that can be used to measure the authorities' performance and to guard against any possible misuse of powers. In that sense, transparency serves to achieve accountability, which means that authorities can be held responsible for their actions. Without transparency and accountability, trust will be lacking between a government and those whom it governs. The result would be social instability and an environment that is less than conducive to economic growth" (Tsei-tseimou, http://www.confidente.com.na /author /selma/np, nd).

Karayannis, quoting Richard Stren, Professor of Public Policy and Governance at the University of Toronto and a Senior

Fellow of the Global Cities Institute states that "Transparency in city governments is a critical step in providing and defending basic rights at the city level. A global standard for measuring and reporting on the performance of city governance -- including the role of women in city government, can help city leaders worldwide be more responsive, transparent and more responsible to their citizens", (Karayannis, http://smartcitiescouncil.com/article? dissecting-iso-37120-why-shady-planning-good-smart-cities).

CASE ASSIGNMENT

Sixty-nine graduate accounting students were put into groups of three and asked to select three United States cities with a population between 100,000 and 1,000,000. The population parameter was chosen to eliminate the very large and very small cities to better reflect the average size city, while having sufficient resources and infrastructure that would enable reporting on sustainability efforts. Nine cities were eliminated, due to either failure to submit the assignment, failure to follow instructions, or gave patterned responses, leaving sixty cities. Each group was required to provide basic demographic information, the city's sustainability report, and the number of GRI indicators listed in their sustainability report. Each group was then required to evaluate, on a scale of one to five, each city's sustainability report with regard to the five reporting qualities: Balance, comparability, accuracy, clarity and reliability, as defined by the GRI. Timeliness, while important for decision-making, was not addressed as part of the assignment since this study posits that timeliness is necessary for usefulness but does not add to transparency. For each quality, a value of one indicated that the city's sustainability reporting did not meet the minimum expectations of the quality and a value of five indicated that the city's reporting did an excellent job on reporting regarding the quality. The assignment accounted for 30% of their final exam grade, thus providing a strong incentive to expend maximum effort on their assignment. After submission of

their assignment, an exit-type interview was conducted with each group regarding their decision-making process.

The students were currently enrolled in one of two sixteen-week graduate-level advanced financial accounting courses. The final four weeks of each course was dedicated to sustainability reporting, specifically an examination of the GRI guidelines with the focus being on the five reporting qualities as presented in the GRI website. All students had an earned undergraduate accounting degree. The students ranged in age from their mid-twenties to mid-fifties. More than 90% indicated that they were currently working in various capacities as an accountant.

RESULTS

Table 2 presents the results of the case assignment. Initially, sixty-nine cities were evaluated. Nine cities were not included due to either the assignment not being completed or due to assignment submissions reflecting a pattern of all ones or all fives for the qualities which indicated little thought was given to the assignment. The balance quality received a mean value of 1.9833. A discussion with each group revealed that they felt that the cities only reported good news. The mean value for the comparability quality was 2.5, indicating that the groups believed the cities did a little better reporting in a manner that promoted comparability. Each group rated comparability between reporting years of each city and not among cities. The accuracy quality was given a mean score of 2.70. Each group was somewhat confident with their analysis regarding accuracy. This was a result of having the cities' complete set of statements for reference. Clarity received a mean score of 2.95, the highest score among the qualities. This was due to the manner in which the cities reported. The cities primarily used narratives to report on sustainability. The groups felt that using narratives for reporting made the sustainability report more user-friendly. Reliability received a score of 2.6833 indicating that the groups believed that while overall the reporting qualities were not well met, the information

contained in the reports was reliable. Lastly, transparency received an evaluation of 2.5633. It was expected that, since transparency is a result of the five qualities, the transparency score would fall within the range of the quality values.

The standard deviation and coefficient of variation were calculated for each quality and transparency. Table 3 presents the basic descriptive information. The results indicate that the variance is not excessive. It was expected that some variance would exist since evaluating the qualities have a degree of subjectivity.

Table 2
Evaluation Results

City	Balance	Compare	Accuracy	Clarity	Reliable	Transparency
Anaheim	4	4	4	5	5	4.4
Ann Arbor	4	4	4	5	4	4.2
Arlington	1	5	4	3	3	3.2
Athens	4	4	4	5	4	4.2
Atlanta	3	3	3	3	3	3
Augusta	1	4	3	2	1	2.2
Aurora	4	4	4	4	4	4
Austin	4	3	4	5	5	4.2
Cambridge	2	2	5	5	5	3.8
Chandler	1	2	1	1	4	1.8
Charleston	1	3	1	2	2	1.8
Charlotte	1	3	3	3	2	2.4
Chesapeake	1	1	4	4	3	2.6
Cincinnati	3	3	3	4	3	3.2
Clearwater	2	1	2	1	2	1.6
Cleveland	2	1	3	5	2	2.6

College Station	2	2	3	3	2	2.4
Columbia	1	1	2	3	2	1.8
Columbus	2	5	3	4	2	3.2
Concord	1	2	2	1	3	1.8
Corpus Christi	1	2	2	1	2	1.6
Denver	2	4	3	4	3	3.2
Eugene	2	2	3	3	3	2.6
Gainesville	2	3	3	2	3	2.6
Garland	3	4	4	3	3	3.4
Gilbert	1	2	1	2	1	1.4
Glendale, AZ	2	1	1	2	1	1.4
Glendale, CA	1	1	3	2	3	2
Grand Rapids	2	2	1	3	2	2
Green Bay	1	1	2	1	1	1.2
Greensboro	1	2	5	3	4	3
Kansas City	1	2	3	3	3	2.4
Kingston	1	2	1	1	1	1.2
Knoxville	1	3	3	3	3	2.6
Lakewood	3	4	3	4	3	3.4
Lancaster	2	2	3	3	3	2.6
Lansing	2	3	2	5	3	3
Las Vegas	2	4	3	3	3	3
Lexington	2	4	3	2	5	3.2
Lincoln	3	3	3	3	2	2.8
Long Beach	2	3	3	4	3	3
Louisville	2	2	3	3	3	2.6
Lowell	2	4	3	3	3	3
Madison	3	2	3	3	2	2.6
Memphis	1	2	2	2	2	1.8
Mesa	1	2	2	2	3	2

Milwaukee	1	2	3	4	3	2.6
Minneapolis	3	2	3	3	3	2.8
Pittsburgh	1	1	1	4	1	1.6
Portland	1	1	1	2	1	1.2
Raleigh	3	3	3	4	3	3.2
Richmond	4	4	4	4	4	4
Riverside	2	2	2	2	2	2
Rochester	1	1	1	2	2	1.4
Sarasota	4	2	3	4	3	3.2
Seattle	4	3	3	3	3	3.2
Waco	1	1	2	2	2	1.6
West Palm Beach	1	2	2	1	1	1.4
Wilmington	1	1	2	3	2	1.8
Yonkers	2	2	2	1	2	1.8

Table 3
Descriptive Statistics

	Balance	Compare	Accuracy	Clarity	Reliable	Transparency
Mean	1.9833	2.5000	2.7000	2.9500	2.6833	2.5633
Standard Dev	1.0407	1.1180	1.0049	1.1891	1.0407	0.8489
Co of Variation	0.5247	0.4472	0.3722	0.4031	0.3878	0.3311

DISCUSSION

The GRI's database indicates that U.S. cities' reporting on sustainability reporting lag behind both the private sector and most other industrialized countries' local governments. Also, local government reporting falls far behind private industry when reporting on sustainability efforts. In the private sector sustainability, and the subsequent reporting on sustainability, adds

value. A study by Morgan Stanley (2015) of 10,228 mutual funds and 2,874 Separately Managed Accounts (SMA) found that returns on investments in sustainability often exceeded returns experienced by more traditional investments. The lack of an empirical link between sustainable activities and a quantifiable measure of value affects local government managements' decision to invest in reporting of sustainable activities.

The evaluation of sustainability reports is subject to a degree of subjectivity. The descriptive statistics revealed that the degree of subjectivity was not excessive. The analysis reveals that none of the cities in the study met or used GRI indicators and little uniformity could be found among the reports. The diversity among the reports included format, number and type of indicators and level of detail, and no city incorporated sustainability budgetary information into either their sustainability report or Comprehensive Annual Financial Report (CAFR.)

The three dominant theories of voluntary reporting do not provide the impetus for sustainability reporting in a manner that meets the five quality principles or results in transparency of reporting as defined by the GRI. We posit the following explanations on why the three leading theories do not result in transparency of reporting.

Legitimacy theory implies that society determines what is valued and consequently what should be reported. Stakeholders depend on societal norms and beliefs. Given the paucity of sustainability reporting in conformity with any reporting framework, stakeholders have no point of reference. Similarly, due to the lack of uniformity, Institutional Theory provides no point of reference for local government sustainability reporting. According to DiMaggio and Powell (1983), isomorphism is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions. Institutional Theory applies to those situations where comparisons can be made. Stakeholders, having no point of reference, have not exerted influence upon local government administrators about

sustainability priorities and subsequent reporting. Demand-side stakeholder theory, as put forth by Ben-Ner and Van Hoomissen, (1991) proposes that those stakeholders that exert the most influence will affect the principal's behavior. In the absence of such pressure the principal has more latitude to pursue other agendas. Unlike private industry, and without the funding of sustainability grants, local governments face a zero sum game. Scarce resources are diverted to those activities that promote the senior officials' agenda, leading to potential agency problems.

The lack of an empirical link between sustainable activities and a quantifiable measure of value affects local government managements' decision to invest in reporting of sustainable activities. Consequently, local governments will not produce meaningful sustainability reports until the information is required as part of their CAFR. In addition, budgets should include funds earmarked for sustainability efforts and the subsequent reporting. Transparency requires reporting the effect on the budget of alternative uses of scarce resources.

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