

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

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*Imagine that every year, you had to write a report on your environmental and social performance and post it on a social media website. Do you think this new requirement would cause you to change your habits? Would you try to live (even more) more sustainably?*

In some jurisdictions, large business corporations are required to file such “non-financial” reports. In Canada, policymakers have put efforts into clarifying non-financial aspects of existing reporting requirements and are also considering new requirements that specifically address social, environmental and governance (ESG) issues. Corporate reporting has thus become a focal point for conflicting expectations regarding corporate priorities and fundamental shifts in corporate legal theories. In particular, social norms as well as traditional corporate governance theories have been challenged because the ecological impacts of business corporations and their use of limited natural resources are an important puzzle piece of current global challenges such as climate change, loss of biodiversity and pollution (“planetary boundaries”). My doctoral thesis explores whether corporate sustainability reporting requirements could be a stepping stone to building institutions that facilitate business within planetary boundaries.

My research offers insights into the risks and opportunities associated with increased demands for transparency from the corporate perspective. In particular, it can assist boards of directors in managing the various and conflicting demands that business corporations face as calls for more sustainable business practices clash with expectations of short-term financial performance.

## *A legal framework for corporate sustainability reporting*

My thesis provides a framework that clarifies the legal requirements with regard to corporate sustainability and human rights reporting in Canada. In addition, I highlight corporate directors’ latitude to prioritize long-term sustainable growth in the context of corporate reporting. For example, my findings can assist corporate directors in navigating sustainability reporting under the “reasonable investor test”.<sup>1</sup> Studies by the Canadian Securities Administrators (CSA) reveal

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<sup>1</sup> Canadian regulators, as well as the Supreme Court of Canada (SCC), use the “reasonable investor test” to determine the scope of required disclosure under securities laws. The test was first developed by the U.S. Supreme Court and asks if there is a “substantial likelihood that a reasonable investor would consider the fact as having significantly altered the total mix of available information” with respect to an investment decision (SCC, *Sharbern Holding Inc. v. Vancouver Airport Centre Ltd.*).

that Canadian corporations encounter difficulties in integrating sustainability matters, such as climate change-related risks, into the conventional framework for assessing the materiality of information. Correspondingly, corporations often do not meet investors' informational needs with respect to these issues. Based on a legal comparative analysis, I will propose a framework for corporate sustainability reporting that provides legal certainty and supports corporate directors in their mandate to govern Canadian corporations as "good corporate citizens" (SCC, *BCE Inc. v. 1976 Debentureholders*).

### *Corporate reputation and social norms*

My research also sheds light on reputational mechanisms associated with corporate sustainability reporting. In addition to legal norms, social norms play a significant role in corporate governance as directors need to respond to the expectations of corporate stakeholders. My thesis situates sustainability reporting in the context of empirical evidence of social expectations vis-à-vis business corporations and behaviour patterns of important stakeholder groups such as customers and investors. It utilizes sophisticated models of corporate reputation and game theory to predict how increased transparency will impact business corporations.

In addition, an in-depth understanding of the interaction between law and social norms allows for proactive rather than reactive corporate responses to a changing regulatory landscape. In particular, my research can assist corporate directors in anticipating changes in social norms caused by the introduction of sustainability reporting requirements. My thesis includes an empirical examination of how investors respond to mandated corporate sustainability reporting under the new European non-financial reporting requirements. These findings will contribute to our understanding of how investors utilize sustainability information and if industry norms change as a result of the introduction of sustainability reporting requirements.

### *Pushing the envelope on corporate sustainability reporting*

In my thesis, I critically examine the economic justifications of current business and reporting practices. My research is informed by theories that go beyond individual rationality and rethink the standard definition of efficiency in the context of environmental and social systems. By challenging the implicit normative assumptions of traditional corporate governance theories, I demonstrate how sustainability considerations have been systemically disregarded. In particular, the conventional approach to reporting under securities laws does not leave much room for the consideration of planetary boundaries and ultimately reinforces the norm of short-term profit maximization. My thesis presents arguments for the introduction of specific corporate sustainability reporting requirements to address this imbalance and to better serve the informational needs of a broad spectrum of investors.