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ISTANBUL STOCK EXCHANGE SUSTAINABILITY INDEX (ISESI): A NEW WAY OF SUSTAINABILITY REPORTING FOR TURKISH COMPANIES

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—Abstract —

As the world becomes more global, fast-paced and hypercompetitive, competitive advantage increasingly depends on success in managing paradoxical issues concerning the world. In order to overcome these dilemmas, companies change their paradigm about environment and seek to promote responsible corporate citizenship so that business can be part of the solution to the challenges of globalization. As sustainability issues become more essential, reporting necessities were emerged and a number of sustainability indexes were developed. These indexes provide a global benchmark to make comparisons between companies for responsible investors, final consumers, other stakeholders, etc. Companies want to be members of Sustainability Indexes (SIs) in order to realize such benefits as having competitive advantage, creating added value, having sales growth and increasing firm value in the long-term. The Istanbul Stock Exchange (ISE) and Turkish Business Council for Sustainable Development (TBCSD) launched the Istanbul Stock Exchange Sustainability Index (ISESI) Project in August 2010. The Project's aim is to review the companies listed on the ISE based on their management of sustainability issues and to create an index that will demonstrate the sustainability leadership of Turkish companies. In this context, the objective of this study is to explore the expectations of companies from

Istanbul Stock Exchange Sustainability Index (ISESI) currently in draft and to make predictions about its future contributions. We try to find an answer to the question that what difference will ISESI make for Turkish companies' sustainability efforts.

Key Words: *Sustainability reporting*, *sustainability indexes (SIs)*, *Istanbul Stock Exchange Sustainability Index (ISESI), competitive advantage.*
JEL Classification: Q56

1. INTRODUCTION

As globalization increases, companies need to be more sensitive to the expectations of all different stakeholders. The environment and the society are the most two important among them. Many companies in the world feel a strong necessity for being more sustainable in their operations. As sustainability issues became more essential, reporting necessities were emerged and a number of indexes –worldwide, regional, national- were developed. These indexes provide a global benchmark to make comparisons between companies for responsible investors, final consumers, other stakeholders, etc. Companies want to be members of Sustainability Indexes (SIs) in order to realize such benefits as having competitive advantage, creating added value, having sales growth and increasing firm value in the long-term. In addition worldwide, regional indexes, some countries developed own SIs. For Turkish companies, The Istanbul Stock Exchange (ISE) and Turkish Business Council for Sustainable Development (TBCSD) launched the Istanbul Stock Exchange Sustainability Index (ISESI) Project in August 2010. The objective of this study, after a brief review of sustainability indexes is to explore the expectations of companies from Istanbul Stock Exchange Sustainability Index (ISESI) currently in draft and to make predictions about its future contributions.

2. AN OVERVIEW OF SUSTAINABILITY INDEXES

Corporate sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments. It is an organizational commitment to achieving competitive advantage through the strategic adoption and development of ecologically and socially supportive production processes, products and services and innovative human management practices (Dunphy, Griffiths, Benn,2003:176).

2.1. Sustainability Strategies as a Source of Competitive Advantage

Organizations constantly seek elements to differentiate them from their competitors, since such elements could become resources that generate long-term sustainable competitive advantages. These advantages would enable organizations to survive as well as to obtain an over average profitability rate and economic equilibrium.

Reinhardt (1999) suggests that there are opportunities for competitive advantage and increased profits by engaging in environment strategies. The application of sustainability practices and strategies become a source of competitive advantage. Efficient management of resources would facilitate the development of capabilities that enable long term sustainable competitive advantages (Lopez et al.,2007:285).

It is often argued that firms' adoption of sustainability strategies should grant them competitive advantages over firms that do not adopt them (Lopez et al.,2007:286). In addition, Lo and Sheu's study (2007) indicates that companies with remarkable sustainable development strategies are more likely to be rewarded by investors with a higher valuation in the financial markets.

The search for competitive advantage is a priority for firms that operate in a complex global environment, to ensure the capacity to create value in the longterm. Currently, it is thought that advantages are often linked to the adoption of socially responsible behaviour. Interest in these issues has led to the emergence of sustainability indexes linked to the financial markets (Lopez et al.,2007:285).

2.2. The Need For Sustainability Indexes

With the emergence and progressive growth of sustainability issues, the efforts for corporate sustainability reporting have increased. The objective of the corporate sustainability reporting is to assess and verify the corporate sustainability performance of the companies. Corporate sustainability reports provide information on the company's approach to human capital, corporate governance, management of environmental risks and responsibilities for investors and the public.(Nemli,2004:97) There are number of frameworks of sustainability assessment that evaluate the performance of companies. The World Business Council for Sustainable Development (WBCSD), the Global Reporting Initiative

(GRI) and the Global Compact were the foundation for sustainability reporting (Singh et al.,2009:191).

Increasingly, institutional investors such as pension funds have started to shift towards adopting environmental and social investment policies. The more professional institutional investors are entering this market, the bigger is the need for active screening of portfolios and for consistent rating and benchmarking tools to assess the environmental, social and economic bottom line (triple bottom line) of companies and the implications for value creation for investors. This has prompted Dow Jones Indexes and SAM Sustainability Group to launch the first global sustainability equity index in September 1999: The Dow Jones Sustainability Group Index (Knoepfel,2001:7).

Dow Jones sustainability assessment is a thorough process. Through the assessment of economic, environmental and social driving forces and trends, corporate sustainability criteria are identified (see Table-1). The criteria are built into the Corporate Sustainability Assessment, which quantifies the sustainability performance of a company by assigning a corporate sustainability score. The sustainability score is used to identify the leading sustainability companies in each sector. Sources used in the corporate sustainability assessment are company questionnaire, company documentation, media and stakeholder analysis and contact with companies (Dow Jones,2011:9-13). The Corporate Sustainability Assessment enables a sustainability performance score to be calculated for each company based on these four sources (Singh,2009:193).

The methodology developed by SAM Sustainability Group for the DJSGI provides investors with a consistent framework for the financial quantification of corporate sustainability performance. The structure of the assessment methodology allows benchmarking companies on all relevant dimensions of sustainability: economic, social and environmental. In addition, company benchmarks for opportunities and risk categories, and for strategic, managerial and industry-specific criteria are possible. The DJSGI provides not only investors but also companies with strategic sustainability information (Knoepfel,2001:13). Sustainability leading companies included in the DJSGI will directly benefit from the growing demand for sustainability related investments. In addition, being included among the leaders in the DJSGI will enhance a company's image in the eyes of its stakeholders and the public at large (Knoepfel,2011:14).

Table-1: Corporate Sustainability Assessment Crtiteria

Dimension	Criteria	Sub-Criteria
Economic	Corporate Governance	Board Structure, Non-Executive Chairman, Responsibilities and Committees, Corporate Governance Policy, Audit Conflict of Interest, Diversity, Board Effectiveness, Entrenchment Provisions, Senior Management Remuneration.
	Risk & Crisis Management	Risk Governance, Risk Optimization, Risk Map, Risk Review, Risk Strategy.
	Codes of Conduct/Compliance/ Corruption & Bribery	Codes of Conduct: Focus, Systems/Procedures, Corruption & Bribery: Scope of Policy
	Industry Specific Criteria	Brand Management, Customer Relationship Management, Inovation
Environment	Environmental Reporting	Assurance, Coverage
	Industry Specific Criteria	Environmental Management Systems, Climate Strategy, Biodiversity, Product Stewardship
Social	Human Capital Development	HR skill mapping and developing process, Human Capital performance indicators
	Talent Attraction & Retention	Coverage of employees through predefined performance appraisal process
	Labor Practice Indicators	Grievance Resolution, Labor KPIs
	Corporate Citizenship and Philanthropy	GroupWide Strategy – financial focus, Input Measuring benefits, Type of Philanthropic activities
	Social Reporting	Assurance, Coverage
	Industry Specific	Social Integration, Occupational Health & Safety, Healthy Living, Bioethics, Standard for Suppliers, etc.

Source: Dow Jones: 2011: 12.

Moreover, because the companies included in the Index are publicly announced, the wider social investment community is increasingly using the DJSGI as a benchmark. The Dow Jones Sustainability Group Indexes (DJSGI) provide the investment community with the first global benchmark for sustainability that is published daily and is based on well-defined, externally reviewed rules and on a high quality of information. Every year, companies that have participated in DJSGI assessment receive a rating report showing their scores compared to the industry average and qualitative sustainability performance information (Knoepfel,2001:12).

There are many sustainability related indexes apart from Dow Jones indexes. These are Living Planet Index, Ecological Footprint, City Development Index, Human Development Index, Environmental Sustainability Index, Environmental

Performance Index, Environmental Vulnerability Index(Böhringer and Jochem,2007:4).

3. ISTANBUL STOCK EXCHANGE SUSTAINABILITY INDEX (ISESI) PROJECT

3.1. Existing Sustainability Reporting in Turkey

The Global Compact and Global Reporting Initiative are the most popular sustainability reporting frameworks in the world, although the first one being only a voluntary commitment to sustainability. There are a number of Turkish companies utilizing these two frameworks currently.

The Global Compact involves all relevant social actors: companies, whose actions it seeks to influence; governments, labour, civil society organizations, and the United Nations, the world's only truly global political forum, as an authoritative convener and facilitator. The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus. Global Compact Network in Turkey was formally launched in October 2002. UNDP Turkey is exploring opportunities to further develop the Global Compact Network in Turkey, including the establishment of facilities and mechanisms to support the implementation of the Global Compact principles. According to 2011 report, there are 199 participants from Turkey.

The Global Reporting Initiative and its Sustainability Reporting Guidelines have the potential to significantly improve the usefulness and quality of information reported by companies about their environmental, social and economic impacts and performance (Willis,2003:235). According to recent data, there are 35 firms reporting through GRI framework in Turkey.

3.2. Expectations From ISESI

The Istanbul Stock Exchange (ISE) and Turkish Business Council for Sustainable Development (TBCSD) launched the Istanbul Stock Exchange Sustainability Index (ISESI) Project in August 2010. The project's aim is to review listed companies on the ISE based on their management of sustainability issues and to create an index that will demonstrate the leadership of listed Turkish companies (ISESI Project Briefing,2011:2). Also ISESI project purpose is to create a platform that helps to distinguish the most sustainable companies for local and global investors. It is assumed that ISESI will be a tool to compare companies in terms of sustainability performance both in a local and global scale.

The improvements ISESI stimulate will affect corporate governance activities of Turkish companies positively. ISESI may encourage to realize corporate governance principles such as transparency and accountability. Therefore stakeholders can follow not only companies' financial performance but also their sustainability performance.

ISESI will provide Turkish companies with a mechanism for increased access to local and international capital based on their management of risks associated with material sustainability issues and the resulting prospects for future business opportunities, sustainable growth and access to new markets (ISESI Project Briefing,2011:4).

Within the scope of the project, a questionnaire is administered to assess the current situation of sustainability in Turkey (TBCSD, ISE, PWC, 2010). According to TBCSD President's speech (2010), 87% of companies surveyed are aware that sustainability is a social responsibility and it has an effect on financial returns.

Table-2: Factors Affecting The Decision To Enter Sustainability Index

Factor	% of companies considering very important
Competitive advantage	56%
Cost	51%
Financial incentive	37%
Knowledge sharing	34%
Lack of knowledge	19%

Another result from survey is that reputation, increase in financial opportunities and competitive advantage are driving forces for the process of sustainability. According to survey results, 1/3 of companies follow the sustainability practices . Table 2 shows the factors affecting the decision of Turkish companies to enter the sustainability index. (TBCSD, ISE, PWC, 2010:38).

The results of the survey indicated that ISESI project will be realizing the business world's expectations. All in all, Turkish companies are aware of the importance of sustainability issues, however implementation is a little bit slow.

4. DISCUSSION

Sustainability is a very important topic for the future of the world. As sustainability strategies of the firms proliferate, the need to assess and report sustainability performance has emerged. A sustainability report enables companies and organizations to report sustainability information in a way that is similar to financial reporting. Systematic sustainability reporting gives comparable data, with agreed disclosures and metrics. In this regard, The ISESI seeks to provide competitive advantage for leading Turkish companies by raising the profile of sustainability leaders, similar to companies listed on global sustainability indexes, as well as indexes recently launched in emerging markets like Brazil, China, Egypt, Korea, India, and South Africa.

Turkish companies are very positive about ISESI and see ISESI as a good way of reporting about their sustainability efforts. When the index starts, it will be providing information on the sustainability performance of listed Turkish companies.

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