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Business sustainability research: A theoretical and integrated perspective



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ABSTRACT

Global investors demand, regulators require, and companies disclose their sustainability performance information, and scholars have started to conduct research on sustainability performance, reporting and assurance. The goal of firm value creation can be achieved when management considers the interests of all stakeholders and integrates all five economic, governance, social, ethical, and environmental (EGSEE) dimensions of sustainability performance into managerial strategies, actions and reporting. This paper provides a synthesis of research on sustainability and presents a theoretical framework consisting of theories and standards relevant to all five EGSEE dimensions of sustainability performance and risks and their integration into corporate culture, business models and reporting in creating stakeholder value.

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1. Introduction

Business sustainability is gaining considerable attention in the aftermath of the 2007–2009 global crisis as a means to ensure the long-term sustainability of public companies and their accountability to a variety of stakeholders. Global investors demand, regulators require, and public companies disclose their economic, governance, social, ethical, and environmental (EGSEE) sustainability performance (Brockett & Rezaee, 2012; Rezaee, 2015).¹ The goal of firm value creation can be achieved when management considers the interests of all stakeholders and integrates all five EGSEE dimensions of sustainability performance into corporate culture, managerial strategies, business model, actions and reporting. Business sustainability has evolved from a focus on promoting environmental, social and governance (ESG) performance to initiatives that can derive revenue growth and high quality financial performance. International businesses and global investors utilize sustainability performance information and look beyond a company's financials in making business and investment

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¹ The term sustainability or sustainable development was first defined in the Brundtland Report in 1987 as “... development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (WCED, 1987, p. 43). This definition is criticized for not being adequately specific about whose or which needs should be addressed and it focuses primarily on environmental sustainability (Starik & Kanashiro, 2013).

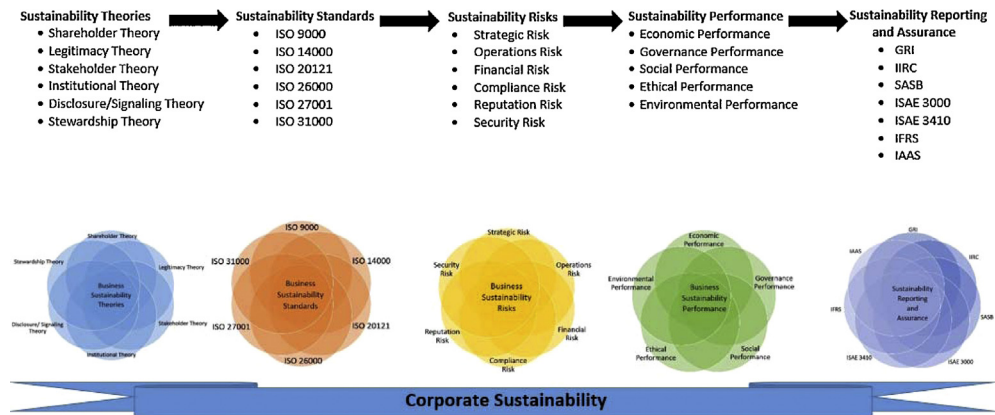


Fig. 1. Integrated corporate sustainability: theories, standards, risks, performance, and reporting.

decisions (Rogers, 2015), and three quarters of investment professionals use sustainability performance information when making investment decisions (CFA Institute, 2015).

The academic community recently has shown interest in conducting research on sustainability beyond more than 100 articles published on corporate social responsibility (CSR).² Huang and Watson (2015) provide a thorough review of research on CSR published in premier accounting journals and suggest a direction for future research. The primary purpose of this paper is to synthesize academic research on business sustainability in order to develop a theoretical framework that presents an integrated and holistic approach to business sustainability performance and reporting. This integrated theoretical framework examines several theories and standards relevant to all five EGSEE dimensions of sustainability performance and risks and their integration into corporate culture, business model and reporting in creating stakeholder value. It also presents some research questions and suggestions for future sustainability research and the integration of sustainability education into the accounting curriculum.

Business sustainability is a relatively new concept, which has been defined as “the pursuit of a business growth strategy by allocating financial or in-kind resources of the corporation to ESG practices” (Tonello & Singer, 2015: 1), which is basically a process of focusing on the achievement of all five EGSEE dimensions of sustainability performance (Brockett & Rezaee, 2012; Rezaee, 2015). In this context, sustainability focuses on activities that generate financial economic sustainability performance and non-financial ESG sustainability performance through maximizing corporate governance effectiveness and business opportunities and minimizing environmental and social harms, and, above all, securing long-term success in creating stakeholder value.³ Recent research suggests that business sustainability is moving away from isolated and opportunistic efforts with a main focus on CSR and toward a more integrated, holistic, and strategic approach embracing all dimensions of sustainability performance and engaging diverse stakeholders (Kiron et al., 2015).

Academic scholars have used CSR, ESG and EGSEE sustainability terms interchangeably with some exceptions. For example, recent studies (e.g., Jain, Jain, & Rezaee, 2016; Kiron et al., 2015; Ng & Rezaee, 2015) classify sustainability performance into two components: (1) financial economic sustainability performance, which focuses on achieving long-term financial performance to create shareholder value, and (2) non-financial CSR/ESG sustainability performance in protecting interests of non-shareholding stakeholders. Global investors consider various dimensions of sustainability performance in their investment analysis, as socially responsible investing (SRI) has increased by more than 22% to \$3.74 trillion in managed assets during the 2010–2012 period (Social Investment Forum (SIF), 2012). More than 6000 European companies will be required to disclose their non-financial ESG sustainability performance and diversity information for their financial year 2017 (European Commission, 2014).

Business sustainability requires an understanding of sustainability theories, standards, risks, performance, and their integration into the corporate culture and business model and academic research as presented in Fig. 1.⁴ The framework of Fig. 1 depicts the five drivers of business sustainability as theories, standards, risks, performance, and reporting, and the remainder of this paper reviews research on these drivers of sustainability. There are four integrated themes of the suggested

² The terms business sustainability, corporate social responsibility (CSR), triple bottom line of focusing on environmental, social and governance (ESG) have been interchangeably used in the literature and authoritative reports. However, business sustainability is regarded as much broader than CSR and even ESG and has recently gained more acceptance (Brockett & Rezaee, 2012; GRI, 2013; Kiron, Kruschwitz, Haanaes, Reeves, & Goh, 2013; Rezaee, 2015; UN Global Compact, 2013). Tonello and Singer (2015) state that CSR inadequately focuses on corporate responsibility, whereas sustainability emphasizes strategies for long-term growth and sustainable performance.

³ The Global Reporting Initiative (GRI) in its G4 sustainability guidelines promotes an integrated reporting on these five EGSEE dimensions of sustainability performance with the ethical dimension being incorporated into other dimensions (GRI, 2013).

⁴ Different components of the framework of Fig. 1 are derived from the extant sustainability literature and the author’s books, research and teaching in business sustainability.

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