

AFAANZ INSIGHT
SERIES 2024

**MOTIVATING
SUSTAINABILITY
RESEARCH:
LITERATURE,
THEORY OR
PRACTICE?**

Prof ELLIE CHAPPLE: QUT Business School,
Brisbane, Australia JAN 2024

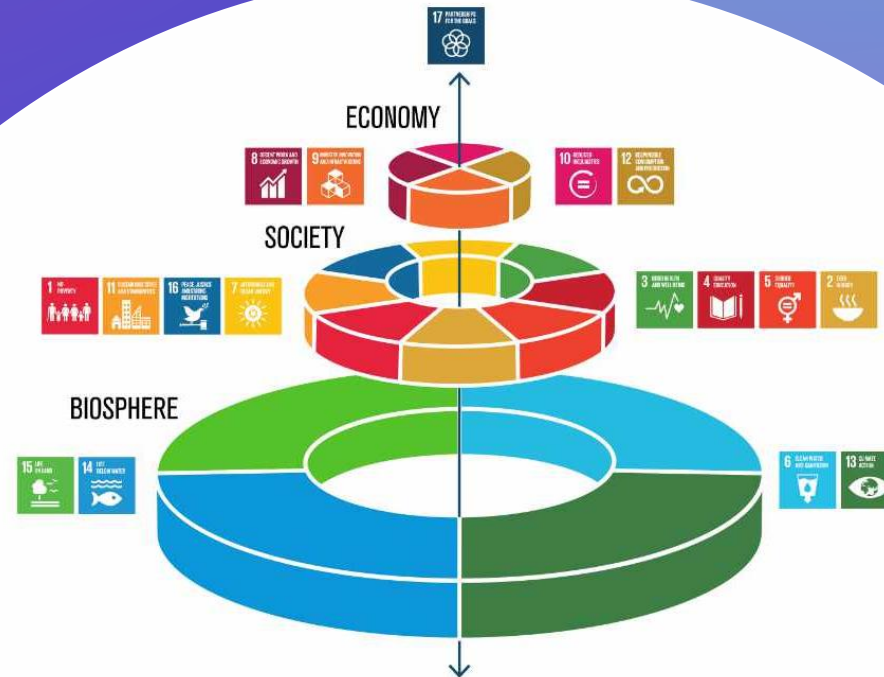
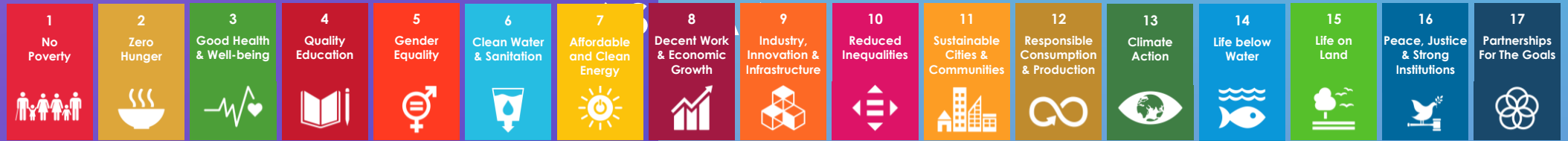


SOME OBSERVATIONS ON SUSTAINABILITY RELEVANCE



PEOPLE, PLANET & PROSPERITY

UN 2030 SUSTAINABLE DEVELOPMENT AGENDA



Some observations on sustainability relevance

UNITED NATIONS FOUNDATION 

The Paris Agreement: 101

On April 22nd – Earth Day – leaders representing more than 100 countries will gather at the United Nations in New York to sign the Paris Agreement on climate change.

The event is expected to be the largest single-day signing in the history of international accords.

But what does it all mean?

THE AGREEMENT: IN 3 STEPS



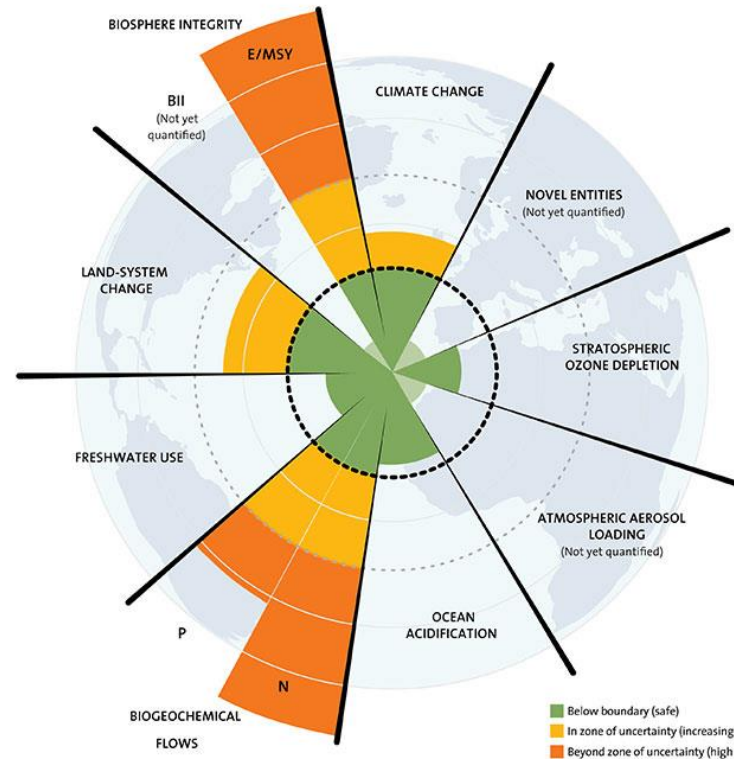
✓ **Adoption by negotiators at COP21**
December 2015



○ **Signing ceremony at UN headquarters**
April 22, 2016



○ **Joining on at the national level by 55 countries representing 55% of the world's emissions**
Date TBD



Task Force on Climate-related Financial Disclosures

Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures



CAN BUSINESS RESEARCH SAVE THE PLANET?

CONCEPTS & RESEARCH QUESTION

THE BUSINESS CASE

PERFORMANCE AND
THE INVESTOR PERSPECTIVE

CONCEPTS



SUSTAINABILITY

Performance

Environment

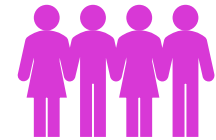


CSR

Activities & strategies

Voluntary

Environment & Social



ESG

Measurement:

Environment

Social

Governance

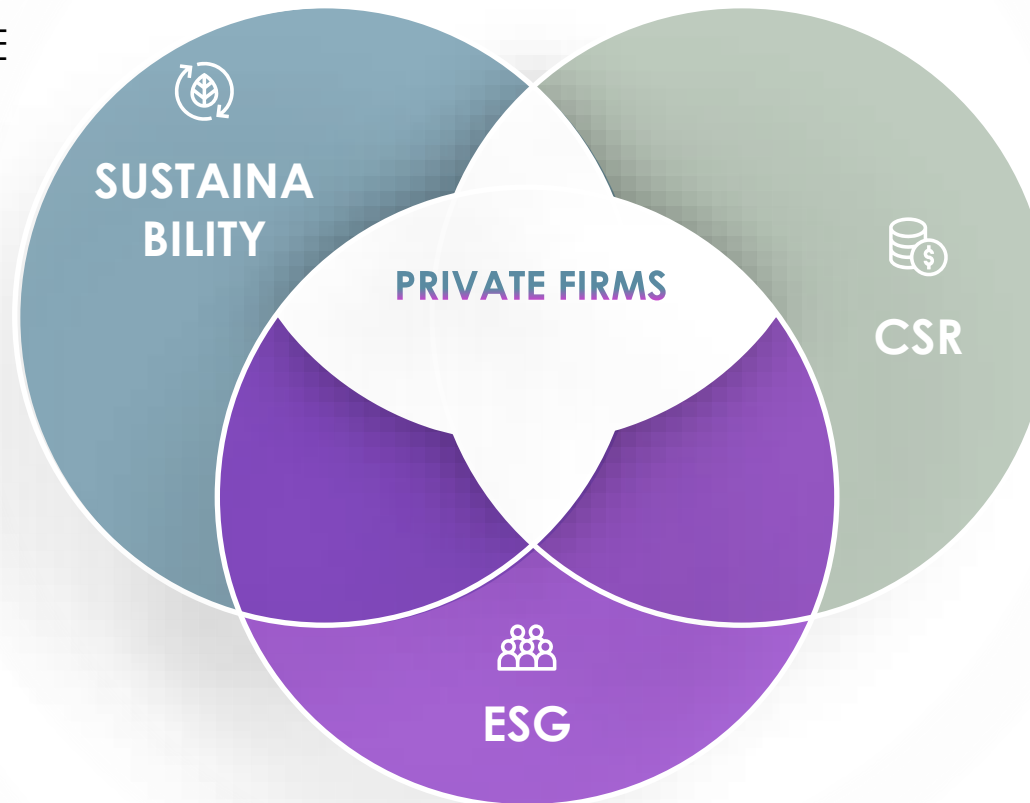
Can business research save the planet?

SUSTAINABILITY

- FINANCIAL AND NON-FINANCIAL PERFORMANCE
- LONG TERM VS SHORT TERM
- DISCLOSURE

OTHER

- SOCIAL LICENCE TO OPERATE
- SUSTAINABILITY GOVERNANCE



CSR

- CORPORATE ACTIVITY
 - STRATEGIES
 - EXPENDITURE

ESG

- MEASUREMENT
 - DATA
 - INVESTING

GILLAN, KOCH & STARKS | JFE | 2021

- ESG is an acronym developed in a 2004 by UN
- how corporations and investors integrate environmental, social and governance concerns into their business models.
- CSR traditionally refers to corporations' activities as more socially responsible, to being a better corporate citizen.
- One difference
 - ESG includes governance explicitly and
 - CSR includes governance issues indirectly
- ESG tends to be a more expansive



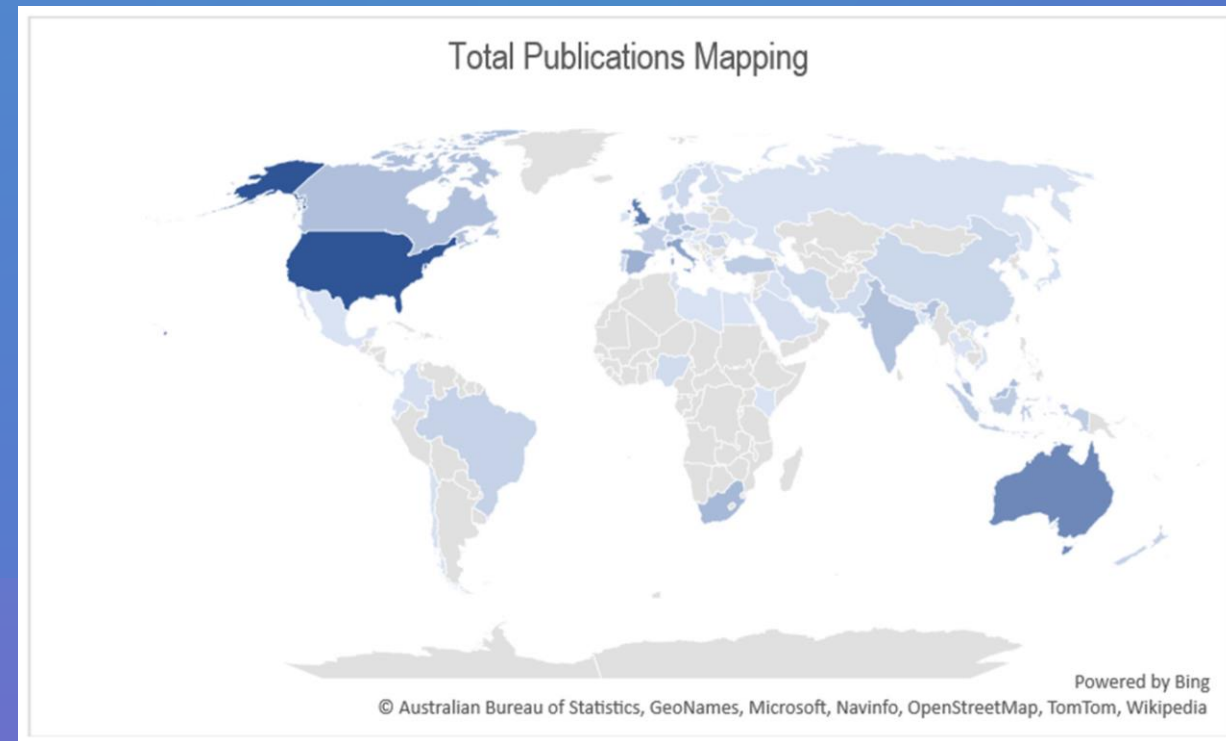
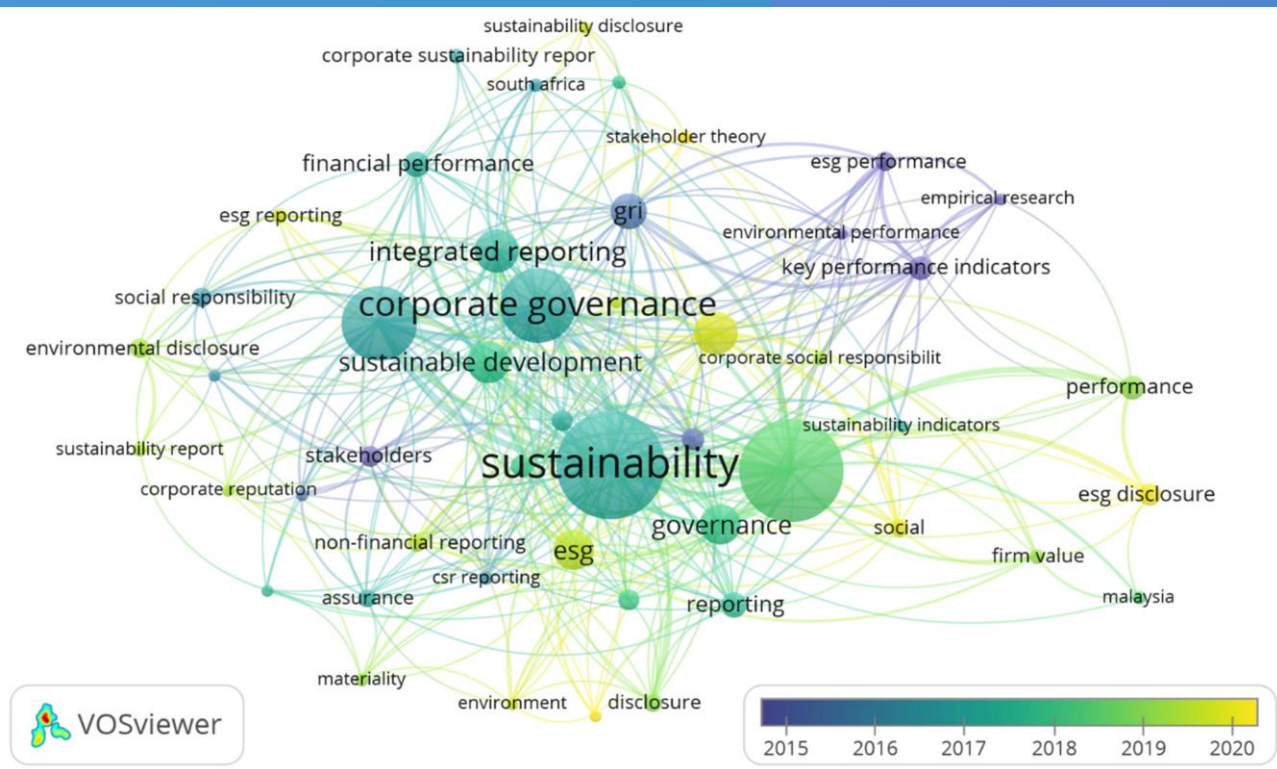
Firms and social
responsibility: A
review of ESG and
CSR research in
corporate finance

A NOTE ON USING ESG SCORES

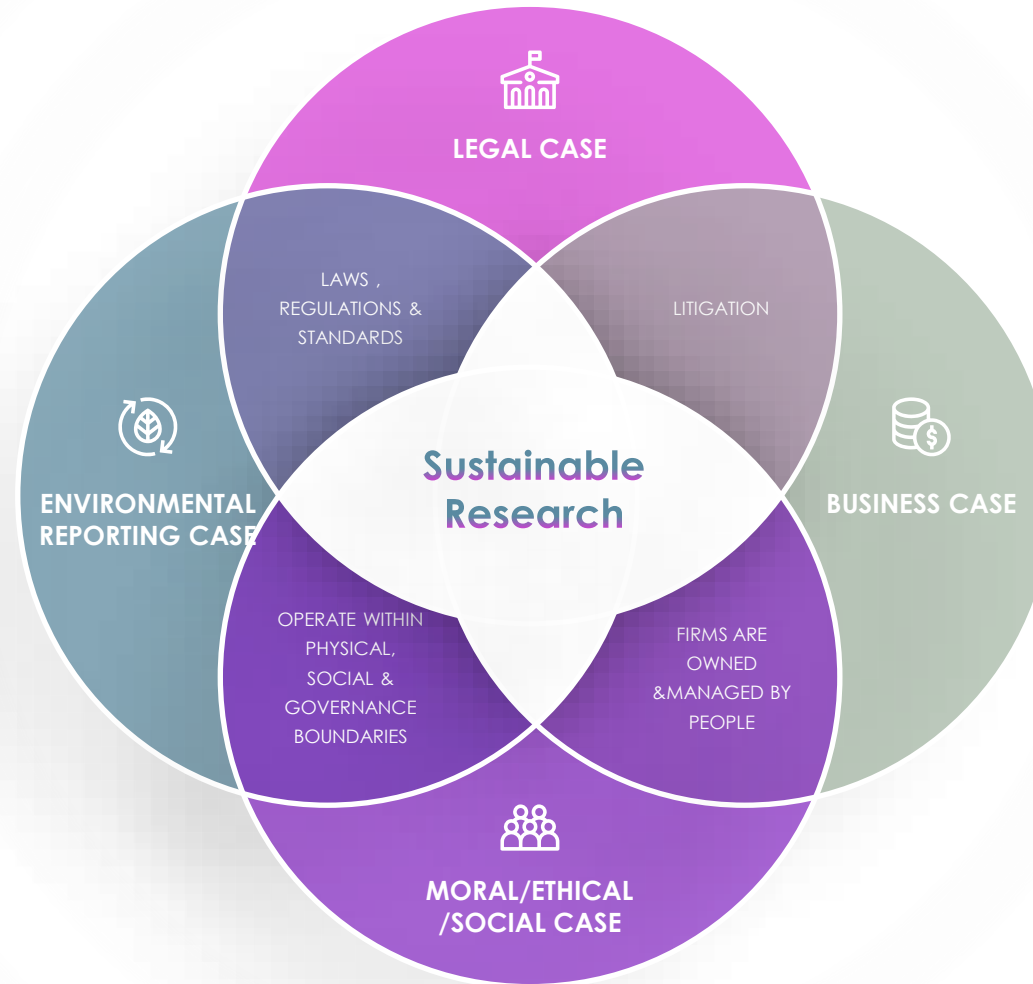
- It is estimated that global spending on ESG data/analytics will increase from US\$2.2 billion in 2020 to US\$5 billion in 2025
- Increasing array of data sources
 - MSCI ESG STATS (formerly KLD);
 - Sustainalytics ESG Risk Rating;
 - Thomson Reuters ESG Score [ASSET4], or Refinitiv ESG score;
 - MSCI ESG Intangible Value Assessment [IVA];
 - Standard & Poor's Global Trucost;
 - RepRisk
 - Tsang, Frost, Cao, *BAR*, 2023 | Tsang, Hu, Li, *China Accounting and Finance Review*, 2021
- Substantial disagreement among rating agencies and scholarly research cannot explain the disagreement | Christensen, Serafeim & Sikochi, *TAR*, 2022.



ESG SNAPSHOT



Why does business care about sustainability?



ECONOMIC
Private sector

THE REPORTING CASE

BREAKTHROUGHS IN FINANCIAL & NON-FINANCIAL
REPORTING

REPORTING FRAMEWORKS

The plethora of (voluntary) reporting frameworks available to boards when communicating with investors and other stakeholders...

These reporting frameworks are voluntary, but as the IFRS has now established the ISSB...

- Taskforce for Climate-Related Disclosures (TCFD)
- Climate Disclosure Standards Board (CCSB)
- Carbon Disclosure Project (CDP)
- Integrated Reporting Standards: Value Reporting Foundation (VRF)
- Global Reporting Initiative (GRI)
- Proposed new Taskforce on Nature-Related Disclosures (TNFD)

Is this motivation or data?

OTHER SOURCES OF ARCHIVAL DATA

Natural resource
consumption

- Ceres Aqua Gauge | Askham, *Env Reportg & Mment in Africa*, 2019

Pollution
disclosures

- Fracking chemicals | Chapman, Wait & Kleynhans, *SA Jnl Int Affairs*, 2015
- GHG disclosures | Busch, Cho, Hoepner et al, *JBE*, 2023

Social
performance

- Glassdoor | Dube & Zhu, *JAR*, 2021 | Anwar & Graham, *Comp & Change*, 2021

ISSB RELEASED GLOBAL SUSTAINABILITY STANDARDS

- **'seismic shift' to sustainability-related financial disclosure requirements over the next two years**
- On 26 June 2023, the International Sustainability Standards Board (ISSB) released
- S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and
- S2 (Climate-related Disclosures).
- heralds mandatory sustainability-related financial reporting,.
- not a matter of 'if' but rather 'when' and 'to whom'.



Dumay et al |
Acc Forum |
2016

Adopting 4 stages to research

Stage 1 consciousness raising research (normative)

Stage 2 testing the impact (empirical)

Stage 3 critical and performative analysis of practices in action

Stage 4 broader impact away from firm level to economy, environment and society, and a wider group of stakeholders beyond investors

Soriya and Rastogi
| Jnl Fin Rep & Acc
| 2022

case studies and empirical research in developing assurance models,

analysis of the perception of shareholders in a range of countries,

harmonization of financial and non-financial standards,

research on the IR of non-listed companies.

Similar to adoption of integrated reporting.

Similar to IFRS adoption!

RESEARCH OPPORTUNITIES LESSONS FROM <IR>

Table 1
Descriptive statistics for CSR studies in accounting.

Panel A Studies in different journals		
Journal	Number of Studies	Share
<i>British Accounting Review</i>	39	30%
<i>Accounting, Organizations and Society</i>	34	26%
<i>The Accounting review</i>	24	18%
<i>Contemporary Accounting Research</i>	16	12%
<i>Journal of Accounting Economics</i>	9	7%
<i>Review of Accounting Studies</i>	7	5%
<i>Journal of Accounting Research</i>	3	2%
Total	132	100%
Panel B Research type		
Research Type	Number of Studies	Share
archival research	83	63%
experimental research	12	9%
survey	12	9%
case study	12	9%
literature review	4	3%
analytical research	1	1%
other	8	6%
Total	132	100%
Panel C Geographical distribution		
Countries/regions	Number of Studies	Share
US	66	56%
Europe	22	19%
Asia	10	8%
Cross-country	11	9%
Australia	5	4%
Africa	2	2%
Canada	2	2%
Total	118	100%

We collect all articles related to CSR/ESG (using keywords "corporate social responsibility", "CSR", "environmental social governance", "ESG" "environment", "donation", etc.) from 1978-2021 published in the *Accounting, Organizations and Society*, *British Accounting Review*, *Contemporary Accounting Research*, *Journal of Accounting*

THE LEGAL CASE

EXPLORING FIRM LITIGATION RISK

LITIGATION TRENDS & LITIGATION RISK

- Setzer & Higham | CCCEP UK Report | 2022
- Non government sector:
- Cases against the Carbon Majors and other companies involved in the extraction of fossil fuels or the provision of fossil energy have continued to proliferate
- clarify the legal obligations of both public and private financial institutions for their 'portfolio emissions'
- understanding of and approaches to climate-related financial risks
- disclosure of climate-related information
- prudent financial management in the transition to a lowcarbon economy.
- Greenwashing
- Greenhushing

CASE: CLIENTEARTH V SHELL (UK)

- A world-first derivative shareholder action ClientEarth (a member) targets board of directors,
- Civil action against 11 Shell directors for breach of their statutory directors 'duties
- alleged failure to implement an energy transition strategy in line with the Paris Agreement.
- UK High Court dismissed the action...BUT ... signals a new approach to directors' legal responsibility



LAW REFORM STIMULATING BUSINESS RESEARCH

- The “European Green Deal” & “sustainable finance ecosystem”
 - UK stewardship code - a range of shareholder engagement in (ESG) matters
 - EU Shareholders’ Rights Directive 2017 - a regime of comply-or-explain for institutional investors for more engaged behaviour
 - EU Corporate Sustainability Reporting Directive (CSR Directive) 2021
 - EU Sustainable Finance disclosure Regulation 2017
 - EU regulation for ‘non-financial disclosures’ in relation to environmental impacts, impact on employees, human rights, and anti-corruptions matters
 - EU, UK, Australia, US – say on pay legislation giving shareholders a non-binding vote on compensation practices
 - UK Gender pay gap disclosure regulation 2015
- China “greening the financial system: Dong, Xu & McIver | Sustainability Acc Mmt & Policy | 2020

CLIMATE CHANGE LITIGATION AS FINANCIAL RISK (FINANCE SECTOR).



Solana | *Green Finance* | 2020



different types of costs that can arise from climate change litigation



directly exposed to the risk of litigation

potential pay-outs and fines,
legal and administrative costs,
insurance costs,
financing costs, and
reputational costs



indirectly, through litigation that targets their counterparties, especially their clients

DREN'S
STMENT FUND
NDATION



Say On Climate

ENGAGE WITH STAKEHOLDE RS

Shareholder voting on climate transition action plans

www.sayonclimate.org

THE ETHICAL CASE

SUSTAINABILITY GOVERNANCE

SOME USEFUL REVIEW STUDIES

- Tami Dinh, Anna Husmann & Gaia Melloni (2023) Corporate Sustainability Reporting in Europe: A Scoping Review, *Accounting in Europe*, 20:1, 1-29, DOI: [10.1080/17449480.2022.2149345](https://doi.org/10.1080/17449480.2022.2149345)
- Gillan, S. L., Koch, A., & Starks, L. T. (2021). Firms and social responsibility: A review of ESG and CSR research in corporate finance. *Journal of Corporate Finance*, 66, 101889.
- AM Gerged, HM Arslan, A Abbas, S Chen, S Manzoor A bibliometric review of corporate environmental disclosure literature *Journal of Accounting Literature*, 2023
- Bosi, Mathew Kevin, et al. "Sustainability reporting through environmental, social, and governance: A bibliometric review." *Sustainability* 14.19 (2022): 12071.
- Velte P (2020) Do CEO incentives and characteristics influence corporate social responsibility (CSR) and vice versa? A literature review. *Social Responsibility Journal* 16(8): 1293-1323
- Albert Tsang, Tracie Frost, Huijuan Cao, Environmental, Social, and Governance (ESG) disclosure: A literature review, *The British Accounting Review*, Volume 55, Issue 1, 2023, <https://doi.org/10.1016/j.bar.2022.101149>
- H.B. Christensen, L. Hail, C. Leuz Mandatory CSR and sustainability reporting: Economic analysis and literature review *Review of Accounting Studies*, 26 (3) (2021), pp. 1176-1248