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

1. No Poverty
2. Zero Hunger
3. Good Health & Well-being
4. Quality Education
5. Gender Equality
6. Affordable and Clean Energy
7. Decent Work & Economic Growth
8. Industry, Innovation & Infrastructure
9. Reduced Inequalities
10. Sustainable Cities & Communities
11. Responsible Consumption & Production
12. Climate Action
13. Life below Water
14. Life on Land
15. Peace, Justice & Strong Institutions
16. Partnerships For The Goals

ECONOMY

SOCIETY

BIOSPHERE
Some observations on sustainability relevance
Can business research save the planet?

Concepts & Research Question
THE BUSINESS CASE
Can business research save the planet?

**SUSTAINABILITY**
- Financial and non-financial performance
- Long term vs short term
- Disclosure

**CSR**
- Corporate activity
  - Strategies
  - Expenditure

**ESG**
- Measurement
  - Data
  - Investing

**OTHER**
- Social licence to operate
- Sustainability governance

**PRIVATE FIRMS**
• 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
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.
Why does business care about sustainability?
THE REPORTING CASE

BREAKTHROUGHS IN FINANCIAL & NON-FINANCIAL REPORTING
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
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'.

<table>
<thead>
<tr>
<th>Dumay et al</th>
<th>Acc Forum</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Adopting 4 stages to research</strong></td>
<td></td>
<td></td>
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<tr>
<td>Stage 1 consciousness raising research (normative)</td>
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<td></td>
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<tr>
<td>Stage 2 testing the impact (empirical)</td>
<td></td>
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<tr>
<td>Stage 3 critical and performative analysis of practices in action</td>
<td></td>
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<tr>
<td>Stage 4 broader impact away from firm level to economy, environment and society, and a wider group of stakeholders beyond investors</td>
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<table>
<thead>
<tr>
<th>Soriya and Rastogi</th>
<th>Jnl Fin Rep &amp; Acc</th>
<th>2022</th>
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</thead>
<tbody>
<tr>
<td><strong>Case studies and empirical research in developing assurance models,</strong></td>
<td></td>
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<tr>
<td><strong>Analysis of the perception of shareholders in a range of countries,</strong></td>
<td></td>
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<tr>
<td><strong>Harmonization of financial and non-financial standards,</strong></td>
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<tr>
<td><strong>Research on the IR of non-listed companies.</strong></td>
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**Similar to adoption of integrated reporting.**

**Similar to IFRS adoption.**
Table 1
Descriptive statistics for CSR studies in accounting.

Panel A Studies in different journals

<table>
<thead>
<tr>
<th>Journal</th>
<th>Number of Studies</th>
<th>Share</th>
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<tbody>
<tr>
<td>British Accounting Review</td>
<td>39</td>
<td>30%</td>
</tr>
<tr>
<td>Accounting, Organisations and Society</td>
<td>34</td>
<td>26%</td>
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<tr>
<td>The Accounting Review</td>
<td>24</td>
<td>18%</td>
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<tr>
<td>Contemporary Accounting Research</td>
<td>16</td>
<td>12%</td>
</tr>
<tr>
<td>Journal of Accounting Economics</td>
<td>9</td>
<td>7%</td>
</tr>
<tr>
<td>Review of Accounting Studies</td>
<td>7</td>
<td>5%</td>
</tr>
<tr>
<td>Journal of Accounting Research</td>
<td>3</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>132</td>
<td>100%</td>
</tr>
</tbody>
</table>

Panel B Research type

<table>
<thead>
<tr>
<th>Research Type</th>
<th>Number of Studies</th>
<th>Share</th>
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</thead>
<tbody>
<tr>
<td>archival research</td>
<td>83</td>
<td>63%</td>
</tr>
<tr>
<td>experimental research</td>
<td>12</td>
<td>9%</td>
</tr>
<tr>
<td>survey</td>
<td>12</td>
<td>9%</td>
</tr>
<tr>
<td>case study</td>
<td>12</td>
<td>9%</td>
</tr>
<tr>
<td>literature review</td>
<td>4</td>
<td>3%</td>
</tr>
<tr>
<td>analytical research</td>
<td>1</td>
<td>1%</td>
</tr>
<tr>
<td>other</td>
<td>8</td>
<td>6%</td>
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<tr>
<td>Total</td>
<td>132</td>
<td>100%</td>
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</tbody>
</table>

Panel C Geographical distribution

<table>
<thead>
<tr>
<th>Countries/regions</th>
<th>Number of Studies</th>
<th>Share</th>
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</thead>
<tbody>
<tr>
<td>US</td>
<td>66</td>
<td>50%</td>
</tr>
<tr>
<td>Europe</td>
<td>22</td>
<td>19%</td>
</tr>
<tr>
<td>Asia</td>
<td>10</td>
<td>8%</td>
</tr>
<tr>
<td>Cross-country</td>
<td>11</td>
<td>9%</td>
</tr>
<tr>
<td>Australia</td>
<td>5</td>
<td>4%</td>
</tr>
<tr>
<td>Africa</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>Canada</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>118</td>
<td>100%</td>
</tr>
</tbody>
</table>

We collect all articles related to CSR/ESG (using keywords "corporate social responsibility", "CSR", "environmental social governance", "ESG" "environment", "donation", etc.) from 1970-2021 published in the Accounting, Organisations 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
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

EU sustainable finance strategy impacting capital market regulation | Chui, SSRN, 2021
different types of costs that can arise from climate change litigation

directly exposed to the risk of litigation

indirectly, through litigation that targets their counterparties, especially their clients
Say On Climate

Shareholder voting on climate transition action plans

www.sayonclimate.org
THE ETHICAL CASE

SUSTAINABILITY GOVERNANCE
SOME USEFUL REVIEW STUDIES


• AM Gerged, HM Arslan, A Abbas, S Chen, S Manzoor A bibliometric review of corporate environmental disclosure literature Journal of Accounting Literature, 2023


• 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


• 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