SUSTAINABILITY, ACCOUNTABILITY AND ETHICS

Master in Accounting

2024/2025

PEDRO DE ALMEIDA FERNANDES
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The Global Reporting Initiative

Global Sustainability Standards Board (**GSSB**)

https://www.youtube.com/watch?v=AGqE4OO0_7g

About half of all reports apply this guidelines. The GRI's publicly accessible registry currently lists 13.528 organizations, 53.098 reports and 31.991 GRI reports.

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The Global Reporting Initiative

- The GRI Standards are issued by the Global Sustainability Standards Board (GSSB), an independent multi-stakeholder standard setting body created by GRI.
- The role of the GSSB is to ensure that the GRI Standards are developed in the public interest, through a multi-stakeholder, transparent and independent process. The Standards are developed according to due process and all meetings are recorded and available on GRI's website.

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The Global Reporting Initiative

The GRI Standards are developed through a multi-stakeholder process:

- Expert Working Groups are formed to develop draft content on specific topics, for the GSSB to review and approve.
- Each Working Group represents a balanced mix stakeholder groups.
- In addition, each draft GRI Standards is released for public comment before the final Standard can be approved.

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The Global Reporting Initiative

- GRI's Framework is the **most widely used and recognized** multi-stakeholder approach for disclosing economic, environmental, social, and governance information about a company's performance and impact
- The GRI guidelines have been rebranded in 2016 and are now called the GRI standards. While in the early years, the GRI guidelines offered a list of indicators, now the standards prescribe more precisely how companies have to approach the reporting process.
- Another important change is that the **concept of materiality has increased in importance**, and that companies have to more clearly define which topics are material, which are those aspects that reflect the organization's significant economic, environmental, and social impacts or that really influence stakeholders' assessments and decisions.

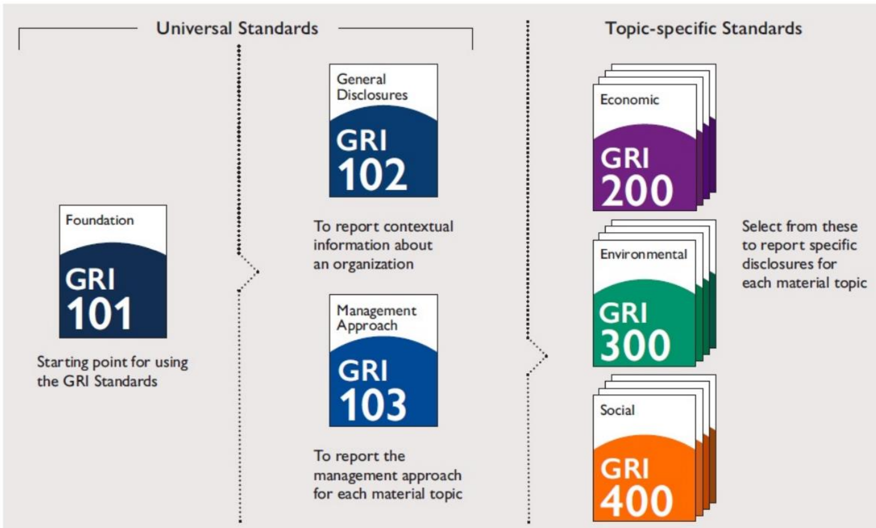
The Global Reporting Initiative

Main features

The GRI Standards:

- Have a modular structure.
- Developed primarily to be used as a set, but can also be used individually.
- Organize content into requirements ('shall'), recommendation ('should') and guidance.
- Include a set of Reporting Principles to guide the selection and quality of content
- Require organizations to identify and report on material topics.

The Global Reporting Initiative



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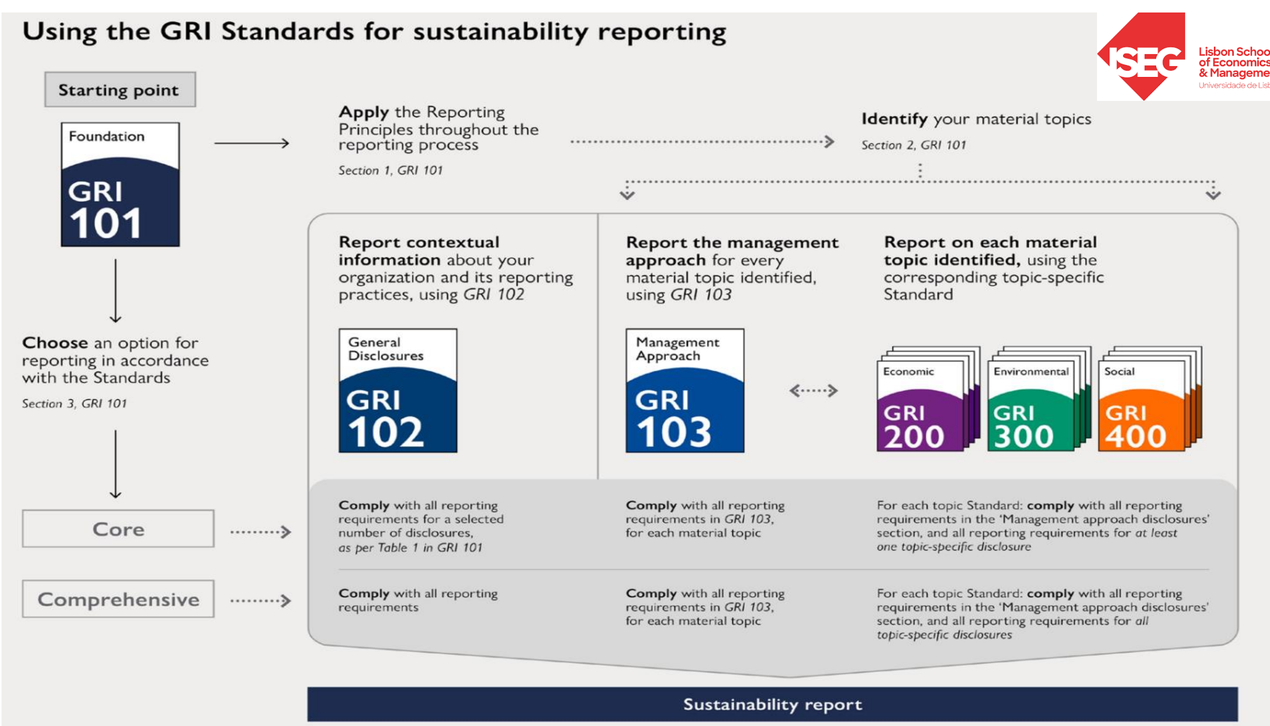

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What to report as non-financial information?

Standards e indicators from GRI

SRS 101: Foundation includes a consolidated table with all criteria for both 'in accordance' options

See SRS 101: Foundation, Section 3, Table 2 (line 725-734)

		Type of claim	
		'In accordance': core option	'In accordance': comprehensive option
Claim that can be made about the use of the GRI Standards		*'This report has been prepared in accordance with the GRI Standards: core option'*	*'This report has been prepared in accordance with the GRI Standards: comprehensive option'*
Requirements to make the claim	SRS 101: Foundation	Comply with all requirements in Section 2 of this Standard, *'Using the GRI Standards for sustainability reporting'*	Same as for 'core'
	SRS 201: General disclosures	Report Disclosures 201-1 to 201-14, 201-16, 201-18, 201-22, and 201-41 to 201-56 Comply with all reporting requirements for the disclosures reported	In addition to the disclosures required for 'core', report Disclosures 201-15, 201-17*, 201-19 to 201-21*, and 201-23 to 201-40* Comply with all reporting requirements for the disclosures reported
	SRS 301: Management approach	For each material topic identified, report Disclosures 301-1, 301-2*, 301-3* Comply with all reporting requirements for the disclosures reported	Same as for 'core'
	Topic-specific Standards (SRS 400, 500, and 600 series), for those topics identified as material.	Report <u>at least one</u> topic-specific disclosure for each material topic* Comply with all reporting requirements for the disclosures reported	Report <u>all</u> topic-specific disclosures for each material topic* Comply with all reporting requirements for the disclosures reported

* *Reasons for omission can apply*

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What to report as non-financial information?

3 'categories' of content:

- **Requirements**: denoted using 'shall' – these are mandatory instructions
- **Recommendations**: denoted using 'should' – not mandatory but advised
- **Guidance**: denoted using 'can' and by a shaded background. Not mandatory but it helps reporters understand and apply the requirements

Defining report content and topic Boundaries

Reporting requirements

6.2 The reporting organization shall report the following information for Disclosure 201-46:

Disclosure 201-46

a. An explanation of the process for defining the report content and the topic Boundaries.

b. An explanation of how the reporting organization has implemented the Reporting Principles for defining report content.

Reporting recommendations

6.3 When compiling the information specified in Disclosure 201-46, the reporting organization should include an explanation of:

6.3.1 the steps taken to define the content of the report and to define the topic Boundary;

6.3.2 at which steps in the process each of the Reporting Principles for defining report content were applied;

6.3.3 any assumptions and subjective judgements made in this process; and

6.3.4 any challenges the organization encountered when applying the Reporting Principles for defining report content.

Guidance 6.2 and 6.3

This disclosure asks the reporting organization to explain the process it has gone through to determine the content to include in its sustainability report. This disclosure can be used to explain how the organization identified relevant sustainability topics and prioritized them using the Materiality and Stakeholder Inclusiveness principles. The explanation can also include how stakeholders' views were sought throughout this process, although this can also be covered in the general disclosures related to stakeholder engagement of this Standard.

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Reporting process using the GRI Standards

GRI 101: Foundation

Section 1: Reporting Principles

An organization is required to apply all the Reporting Principles if it wants to claim that its sustainability report has been prepared in accordance with the GRI Standards.

10 Reporting Principles	
CONTENT	QUALITY
• Stakeholder Inclusiveness • Sustainability Context • Materiality • Completeness	• Accuracy • Balance • Clarity • Comparability • Reliability • Timeliness

Report content principles:

1.Stakeholder Inclusiveness

The reporting organization shall identify its stakeholders, and explain how it has responded to their reasonable expectations and interests.

2. Sustainability Context

The sustainability report should present the reporting organization's performance in the wider context of sustainability.

3. Materiality

The report should cover topics that:

- Reflect the reporting organization's significant economic, environmental, and social impacts; or
- Substantively influence the assessments and decisions of stakeholders. .

4. Completeness

he report should to include coverage of material topics and their Boundaries, sufficient to reflect significant economic, environmental, and social impacts, and to enable stakeholders to assess the reporting organization's performance in the reporting period.

gri-101-foundation-2016.pdf (globalreporting.org)

Quality principles:

1. Accuracy

The reported information has to be sufficiently accurate and detailed for stakeholders to assess the organization's performance.

2. Balance

The report include both reflect positive and negative aspects of the organization's performance, to support accurate assessments of overall performance.

3. Clarity

Information should be made available in a manner that is clear and accessible to stakeholders.

Quality principles:

4. Comparability

The company should select, compile, and report information consistently. Then stakeholders can analyse changes in company performance over time, or in comparison with other companies.

5. Reliability

The company should gather, analyse, and disclose information and processes so that others can examine and confirm it.

6.Timeliness

Information should be available in time for stakeholders to make informed decisions.

Reporting process using the GRI Standards

Section 2: Using the GRI Standards for sustainability

Sets out the basic process for sustainability reporting using the GRI Standards and includes the following content:

- Applying the Reporting Principles
- Reporting general disclosures (using GRI 102)
- Identifying material topics and their Boundaries
- Reporting on material topics (GRI 103: Management Approach and topic-specific Standards)
- Presenting information in a report (including how to use references to other sources)

Complying with all requirements in this section is mandatory to claim that a report has been prepared in accordance with the GRI Standards.

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Reporting process using the GRI Standards

Section 3: Making claims related to the use of the GRI Standards

1. Using GRI Standards as a set to prepare a sustainability report.
2. Using selected Standards, or parts of their content, to report specific information.

Either way, the organization needs to notify GRI of the use of the Standards and using reasons for omission.

Key Terms

This section defines selected terms and definitions that are useful for understanding *GRI 101: Foundation*

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Reporting process using the GRI Standards

GRI 102: General Disclosures

Disclosures about the organization and its reporting practice

Disclosures in *GRI 102* provide an overview of the reporting organization, including its organizational profile, strategy, ethics and integrity, stakeholder engagement, governance structure and sustainability reporting practice.

This information is important as it provides stakeholders with important context to understand the nature of the reporting organization and other disclosures

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Reporting process using the GRI Standards

GRI 103: Management Approach

Management approach disclosures enable an organization to report about their impacts on the economy, the environment and society.

This provides important narrative information about how the organization identifies, analyzes, and responds to its actual and potential impacts.

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Reporting process using the GRI Standards

Topic-specific Standards

Each topic-specific Standard follows the same format:

- Introduction
- Management approach and disclosures
- Topic-specific disclosures
- Glossary
- References

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Overview of the GRI Standards

A report that has been prepared in accordance with the GRI Standards:

- Covers all of the organization's material topics.
- Applies the 10 Reporting Principles for defining report content and quality.
- Can include information published in different places and formats (e.g. on the website and in PDF) – but must have a GRI context index to help users locate information.
- Meets specific criteria to be considered either 'Core' or 'Comprehensive'.
- Complies with all requirements for disclosure included in the report.
- Includes a specific claim about how the GRI Standards have been applied.

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Overview of the GRI Standards

Exercise

Refer to the GRI 301: Materials excerpt and identify the reporting requirements, recommendations and/or guidance

gri-301-materials-2016.pdf (globalreporting.org) 137

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Sustainability Accounting Standards

- On 31 March 2022 the International Sustainability Standards Board (ISSB) published its first proposed standards. SASB Standards enable organizations to provide industry-based sustainability disclosures about risks and opportunities that affect enterprise value. In August 2022, the IFRS Foundation assumed responsibility for SASB Standards.

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Sustainability Accounting Standar

- SASB Standards identify the subset of environmental, social and governance issues most relevant to financial performance and enterprise value for 77 industries. The Standards were developed using a rigorous and transparent standard-setting process that included:
- evidence-based research;
- broad and balanced participation from companies, investors and subject-matter experts; and
- oversight and approval from the independent SASB Standards Board.
- Global investors recognise SASB Standards as essential requirements for companies seeking to make consistent and comparable sustainability disclosures.

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Sustainability Accounting Standar

Environment
- GHG Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Leadership & Governance
- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management

Business Model & Innovation
- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

Social Capital
- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

Human Capital
- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion

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Sustainability Accounting Standards

1.Environment. Environmental impacts
2.Social Capital. Expectation that a business will contribute to society
3.Human Capital. Management of human resources (employees and individual contractors) as key assets to delivering long-term value
4.Business Model and Innovation. Integration of environmental, human, and social issues in a company's value-creation process
5.Leadership and Governance. Issues that are inherent to the business model or common practice in the industry and that are in potential conflict with the interest of broader stakeholder groups

https://www.sasb.org/standard-setting-archive/

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What to report as non-financial information?

Disclosure Recommendations from Financial Stability Board

The Task Force developed **four widely-adoptable recommendations** on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions.

The recommendations are structured around four thematic areas that represent core elements of how organizations operate:

Governance
The organization's governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

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Sustainability rankings

Based on publicly-disclosed data
Methodology is based on key performance indicators (KPIs) covering resource management, employee management, financial management, clean revenue and supplier performance.

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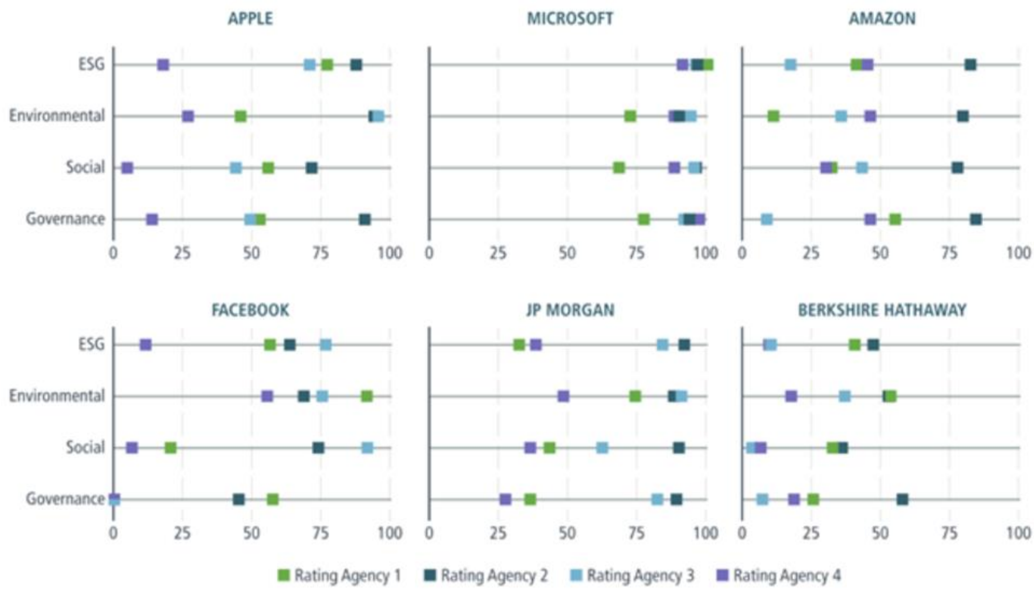
Sustainability rankings



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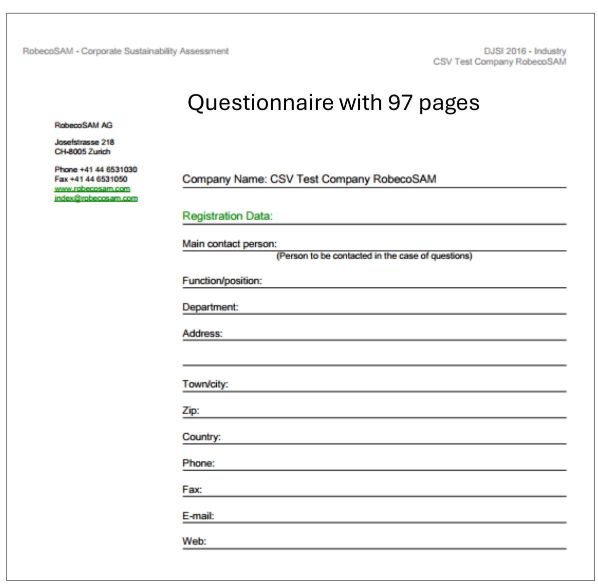
MEMBER OF
Dow Jones
Sustainability Indices
In collaboration with RobecoSAM
a RobecoSAM brand


RobecoSAM - Corporate Sustainability Assessment

DJSI 2016 - Industry
CSV Test Company RobecoSAM

Questionnaire with 97 pages

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CH-8005 Zurich
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Company Name: CSV Test Company RobecoSAM

Registration Data:

Main contact person:
(Person to be contacted in the case of questions)

Function/position:

Department:

Address:

Town/city:

Zip:

Country:

Phone:

Fax:

E-mail:

Web:

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Dow Jones Sustainability Indices

ROBECOSAM
We are Sustainability Investing.

Financial Materiality Framework

RobecoSAM's Definition of Materiality of Sustainability

RobecoSAM defines Materiality as "Any factor which might have a present or future impact on companies' value drivers, competitive position, and thus on long-term shareholder value creation"

Key Question: How do different forms of capital impact financial performance?

Forms of Capital:

- Intellectual capital
- Customer capital
- Manufactured capital
- Human capital
- Environmental capital
- Social capital
- Financial capital & business model

Impact on Financials:

- Growth (Revenue)
- Profitability (Costs)
- Capital Efficiency
- Risk profile

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In general, the company has to collect varied information on:

Environmental Dimension

- Product Stewardship
- Water-related Risks
- Climate Strategy
- Environmental Management System
- Environmental Performance
- …

Social Dimension

- Talent Attraction & Retention
- Human Capital Development
- Occupational Health & Safety
- Stakeholder Engagement
- Human Rights
- …

Governance/Economic Dimension

- Corporate Governance
- Code of Conduct, Compliance
- Risk & Crisis Management
- Customer Relationship Management
- Innovation Management
- …

Source: RobecoSAM

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10 MOST SUSTAINABLE COMPANIES

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INDEX RANK	Company	Industry	Country
1	Orsted A/S	Wholesale power	Denmark
2	Chr. Hansen Holding A/S	Food and other chemical agents	Denmark
3	Neste Oyj	Petroleum refineries	Finland
4	Cisco Systems Inc	Communications equipment	United States
5	Autodesk Inc	Software	United States
6	Novozymes A/S	Speciality and performance chemicals	Denmark
7	ING Groep NV	Banks	Netherlands
8	Enel SpA	Wholesale power	Italy
9	Banco do Brasil SA	Banks	Brazil
10	Algonquin Power & Utilities Corp	Electric utilities	Canada

SOURCE: Corporate Knights: 2020 Global 100 Ranking

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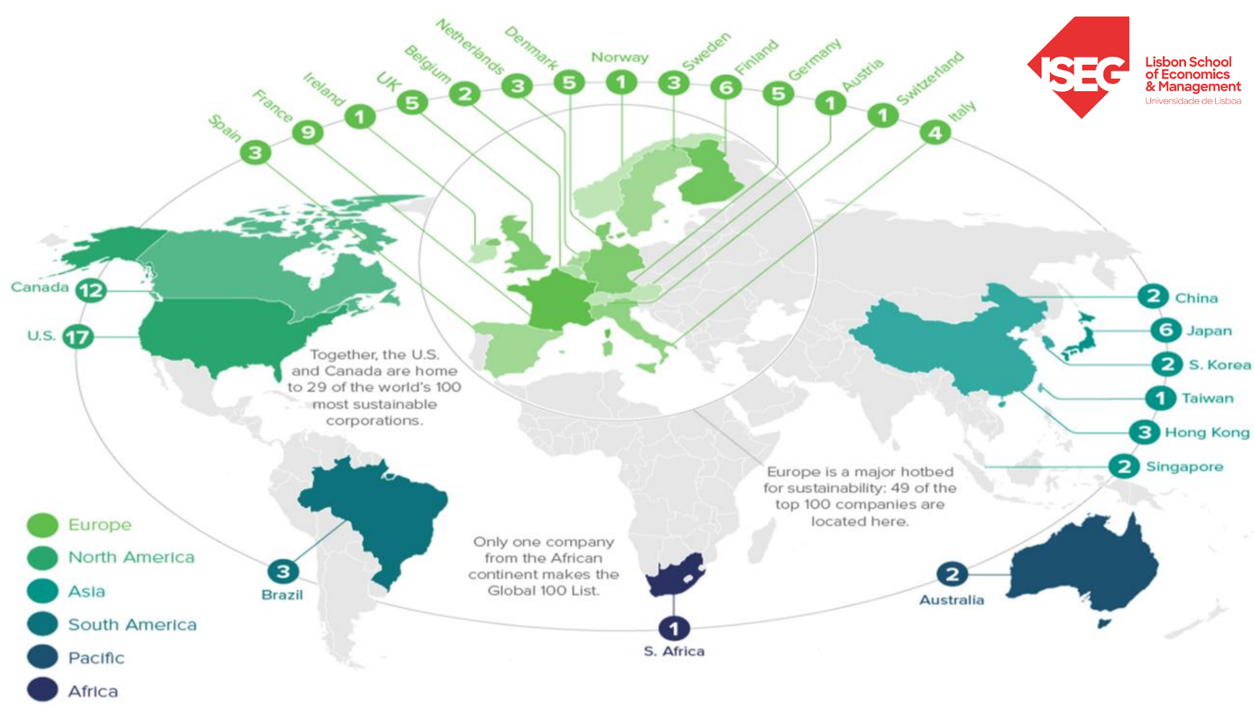

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Stakeholder Engagement principles

(AA1000 Stakeholder Engagement Standard)

Inclusion principle: stakeholder participation in the development and implementation of a strategic and responsible response in relation to sustainability.

Relevance principle: determining relevance is necessary to ensure balanced information that influences the decisions of the organization and its stakeholders.

Accountability and transparency

Responsibility principle: an organization must respond to the concerns of **stakeholders** that affect its sustainable performance. Stakeholders participate in the development of responses.

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Reporting process using the GRI Standards

GRI definition of stakeholder

"Entity or individual that can reasonably be expected to be significantly affected by the reporting organization's activities, products and services, or whose actions can reasonably be expected to affect the ability of the organization to successfully implement its strategies and achieve its objectives."

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Stakeholder Profile	
Stakeholder group	
Stakeholder objective	
Preferred level of engagement with this group	
Stakeholder group representative	
Specific representative/representing organization	
Internal contact person	
Stakeholder's general view on the issue(s) Expectations towards the business regarding the issue(s)	
Engagement history & current highest level of and approaches to engagement	
Relationships/conflicts of interest with other stakeholders	
Knowledge of the issue (Specialist Knowledge, Good Knowledge, Medium Knowledge, Lacking Knowledge, No Knowledge)	
Willingness to engage (Willing, Moderately interested but friendly, Uninterested, Hostile)	
Actual and/or potential impacts of stakeholder on business – associated risks and opportunities	Positive impacts/Opportunities:
	Negative impacts/Risks:
Other comments	

Source: Hong Kong Exchanges and Clearing Limited (HKEX), "How to Prepare an ESG Report," 2016.

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Questions that could be useful to assess the materiality

Here are some questions helpful for assessing the materiality of ESG reports:

- Has this point been mentioned as important by stakeholders?
- Does this information refer to a future challenge to the sector? Is it already being discussed by peers?
- Is this topic covered in relevant laws, regulations, or international agreements?
- Does this factor offer opportunities for your organization?
- Does this factor represent a significant threat or significant risk to your organization?
- Has this element been recognized by scientists and experts as a sustainability risk?
- Does your organization have specialized knowledge or competencies to increase sustainability in this area?
- Does pursuing this goal contribute to the successful implementation of your strategy or reinforce the *values* of your organization?

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Integrated Reporting Framework

- Used to accelerate the adoption of integrated reporting across the world with an aim to:
  - Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital
  - Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time
  - Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their independencies
  - Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

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"My biggest surprise was that it is possible for ESR team to have conversation in financial terms. Every conversation I had with them before,... they never could articulate their assumptions and acknowledge costs and benefits. Now they can and do. They have their act together and can explain a business case previously, they were not able to see their business case… Finance and [Environment and Social Responsibility] are now working together much better than before. Just those changes alone justify the effort put into public."

Ebenezer Kyere-Nuanemg, Finance Newmount Ghana Gold

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Mapping of Stakeholders

Shareholder versus Stakeholders

Stakeholders are individuals or groups with an interest in the company’s project or portfolio because they are involved in the work or affected by the outcomes.

Among such powerful stakeholders identified as influencing NFR are governments, nongovernmental organizations, multinational companies, regulatory agencies, the EU Global Reporting Initiative, auditors, shareholders, and the media” (Dumitru et al., 2017)

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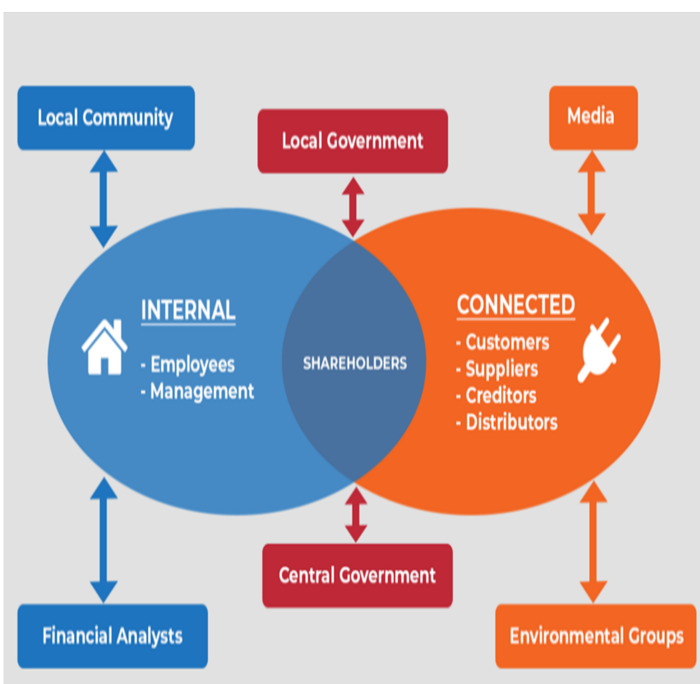
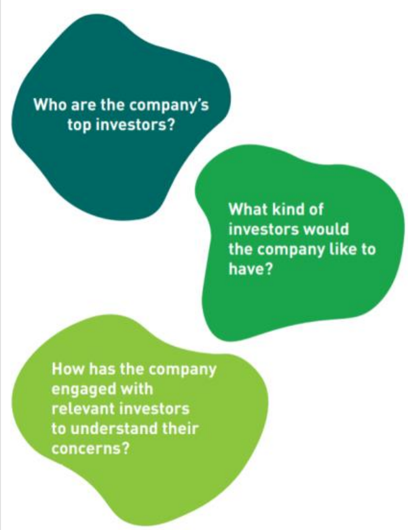
Stakeholders





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Mapping of Stakeholders

- Stakeholder identification and engagement
- Creating value for stakeholders harmonizing different interests of particular stakeholder groups simultaneously.

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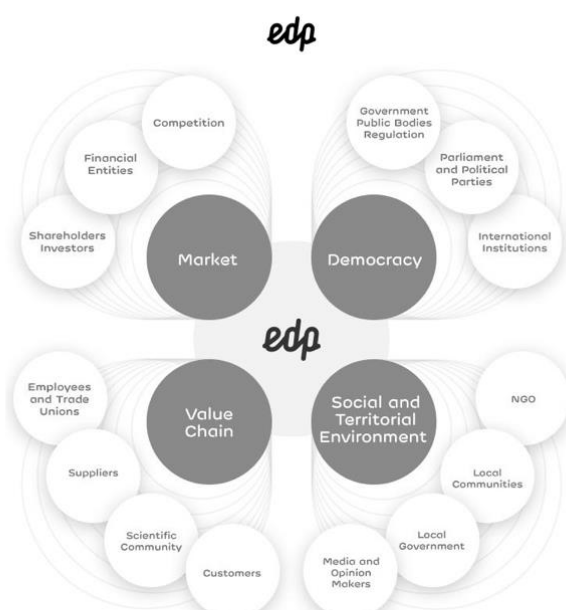
Mapping of Stakeholders

Example: EDP



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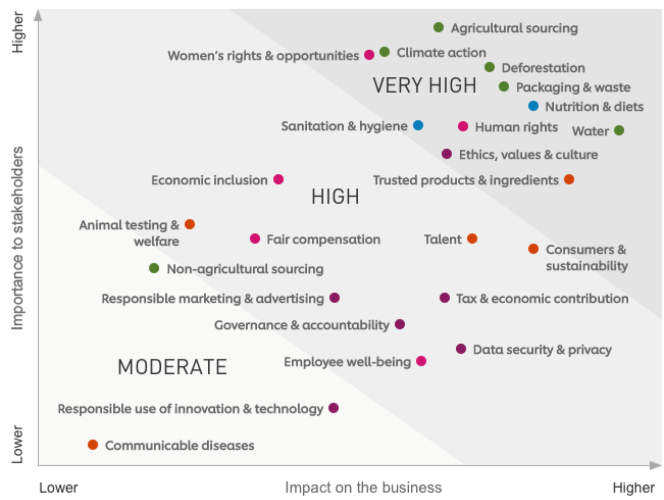
Mapping of Stakeholders – Materiality analysis on Relevant issues

Example: Unilever



https://www.unilever.com/sustainable-living/our-approach-to-reporting/defining-our-material-issues/

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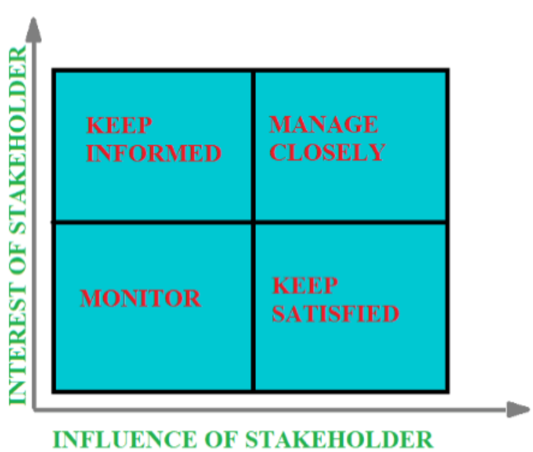
STAKEHOLDER ANALYSIS & STAKEHOLDER MAPPING



Stakeholder mapping is a process of research and debate to determine a key list of stakeholders and to understand their interest and influence (power).

Stakeholder management is the process of managing the expectations of stakeholders.

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STAKEHOLDER ANALYSIS & STAKEHOLDER MAPPING

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Stakeholder analysis is a process of collecting and analysing qualitative information to determine whose interests should be taken into account (Schmeer, 2009)

STEPS:

1 – Identify key stakeholders
- External/internal
- Primary/ secondary

2 – Prioritise the stakeholders

3 – Understand the stakeholders

4 – Managing stakeholders

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STAKEHOLDER ANALYSIS & STAKEHOLDER MAPPING

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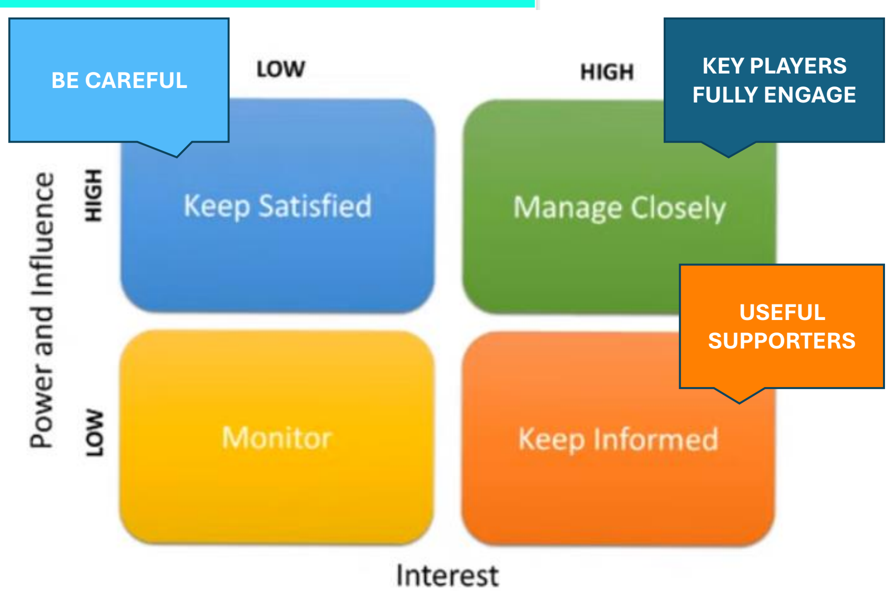

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STAKEHOLDER ANALYSIS & STAKEHOLDER MAPPING

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- What interest do they have in the outcome of your work? Is it positive or negative?
- How are they likely to feel about and react to your project?
- What is the best way to engage and communicate with them?
- What motivates them most of all?
- What information do they want from you and how do they wish to receive it?
- What would encourage them to support your project?

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Stakeholder Analysis Matrix [Compatibility Mode] - Microsoft Excel

Become More Strategic
DEMAND METRIC

Product: Sale of Product ABC		Influence Level		Buy In		Support Quotient	
Stakeholder Role	Type	Interest	Power	Current Support	Flexibility	Influence x Buy In	
John Smith, VP Marketing	End User	8	4	High	90%	7.45	Develop
Sally James, VP Sales	Executive Influencer	7	8	High	50%	8.10	Provide
Jim Shepard, CIO	Technical Buyer	6	9	Moderate	70%	6.85	Reassu
Tina Johnson, Dir. Marketing	End User	7	5	High	70%	7.35	Demons
Tom Stewart, HR Manager	Executive Influencer	2	3	Low	30%	2.15	Educate
Rick Davis, I/T Manager	Technical Influencer	9	6	High	90%	8.30	Have Ri
Wendy Tam, Project Manager	Project Team	1	1	High	60%	4.90	Provide
Stakeholder 8	Technical Buyer	1	1	Low	60%	1.75	
Stakeholder 9	Technical Buyer	1	9	Low	60%	4.55	
Stakeholder 10	Technical Buyer	1	1	Low	10%	1.00	
Stakeholder 11	Technical Buyer	1	1	Low	20%	1.15	

Instructions | Stakeholder Analysis Matrix | Stakeholder Analysis Map

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Broader framework: The UN Sustainable Development Goals

Main topic: To be aware of the **importance of disclosure high quality financial and strategic information alongside with ESG performance** (resource use, human rights, health and safety, corruption, tax transparency)

Increasingly important to:
- step up accountability and transparency;
- gain a better understanding of companies' future prospects;
- draw conclusions about the quality of management;
- identify exposure to business risk;
- assess ability to leverage business opportunities;
- attract and retain long-term investors;
- engage stakeholders on sustainability-related issues;
- take advantage of innovation opportunities opened by sustainable and green economy;
- enable investors to make better informed investment decisions.

- Stakeholders
- Future prospects
- Accountability

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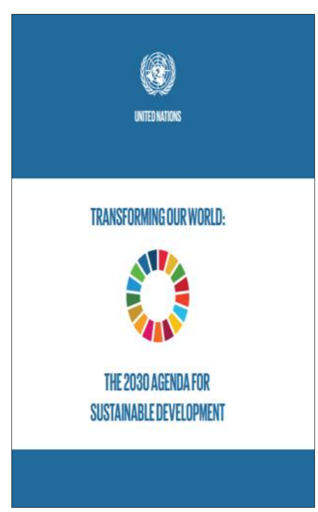
Strategy – Goals - KPIs



https://www.un.org/sustainabledevelopment/sustainable-development-goals/

169 metas ... 232 indicadores

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Strategy – Goals - KPIs

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Strategy – Goals – KPIs

Communicating strategy

Unilever

| Designação do módulo

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Sustainable Balanced ScoreCard

	Frameworks	
Criteria	***Sustainability BSC***	***GRI Reporting Guidelines***
Sustainability issues	Can be included into the SBSC	Provide a great scope of integration
Function	Is a tool to track and evaluate the strategy accomplish level	Their main function is communicate the activities and sustainable performance of the organization
Corporate strategy	Start with a strategically analysis: mission, vision and objectives	Is part of one standard disclosure helping the understanding of business performance
Stakeholders	Permit the stakeholders inclusion into the business strategy	Try to make clear the most relevant topics of the main interest parts to communicate the achievements of the organization
Orientation	External orientation to the stakeholders satisfaction as a key for the organization	To stakeholders communication of relevant topics
Financial and non financial information	Balance financial information and non-financial information.	Combine financial and non-financial information to report

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Balanced ScoreCard

What is a Balanced Scorecard (BSC)?

It is a strategic planning and management system, balancing financial and non-financial goals, indicators and targets.

Organizations use BSCs to:
- Communicate and discuss strategy
- Align the day-to-day work with strategy
- Prioritize projects, products and services
- Measure and monitor progress towards strategic targets

> ➢ Gives a balanced view of performance - holistic system for managing strategy.
>
> ➢ Framework used to connect the vision and mission of the organization with its strategic goals, the projects and programs that people are working on and the measurements being used to track success (KPIs).

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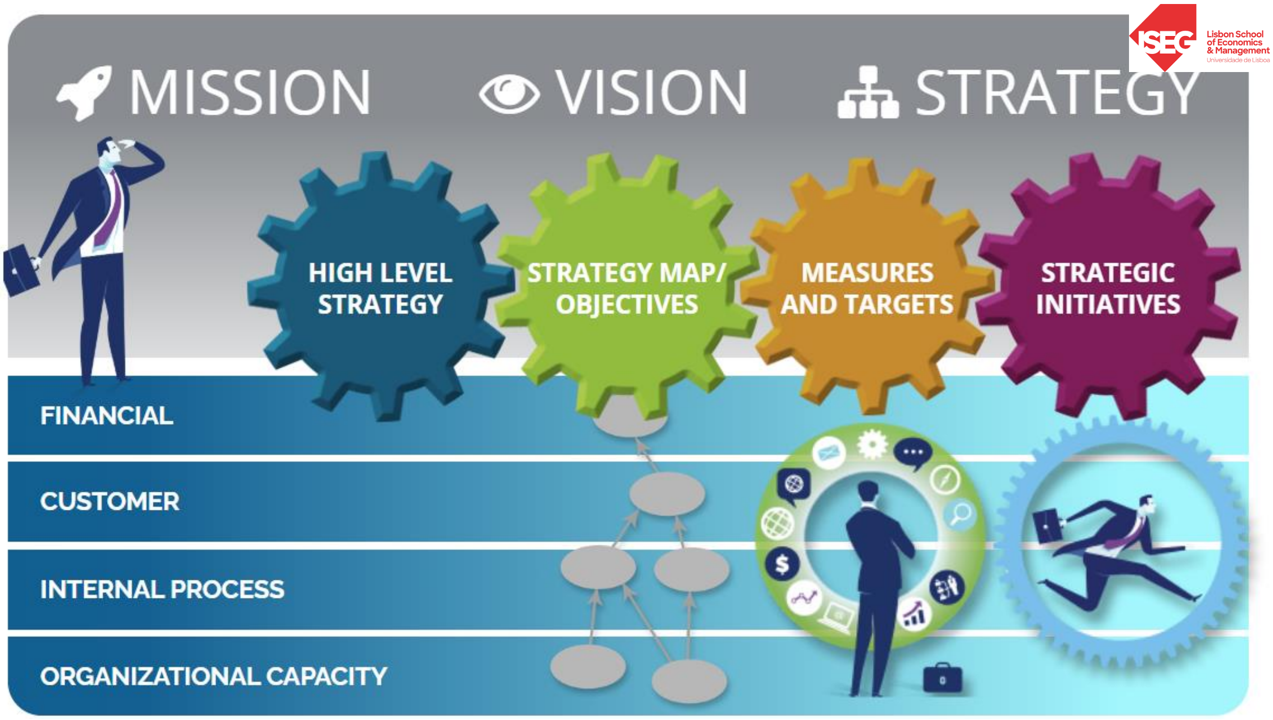

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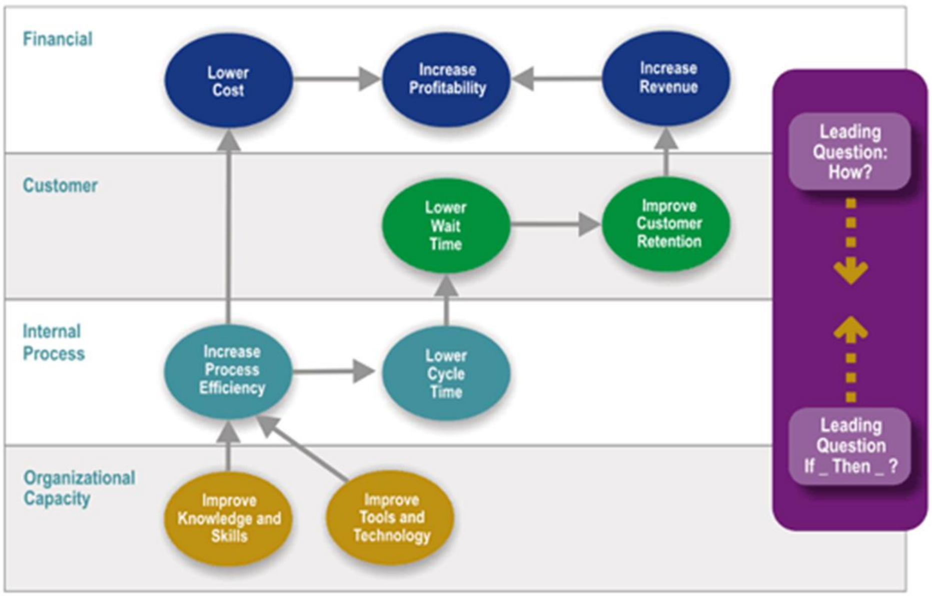
BSC – Perspectives & Strategical Goals

Financial *or* Stewardship	• Financial Performance • Effective Resource Use
Customer & Stakeholder	• Customer Value • Satisfaction and/or Retention
Internal Process	• Efficiency • Quality
Organizational Capacity *or* Learning & Growth	• Human Capital • Infrastructure & Technology • Culture

174

Balanced ScoreCard – Strategic Map



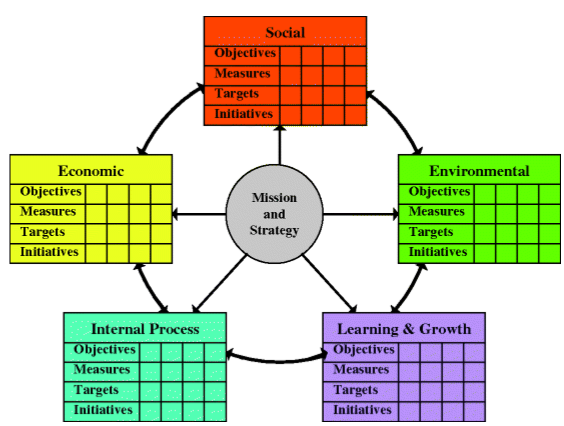
175

Sustainable Balanced ScoreCard

Some sustainable KPIs:

Environmental perspective:
- Resources consumption
- Emission to water, natural environment and air
- Reuse and recycle rate

Social perspective:
- Supplier's sustainability performance
- Job creation
- Emplyee's benefits
- Health and safety performance



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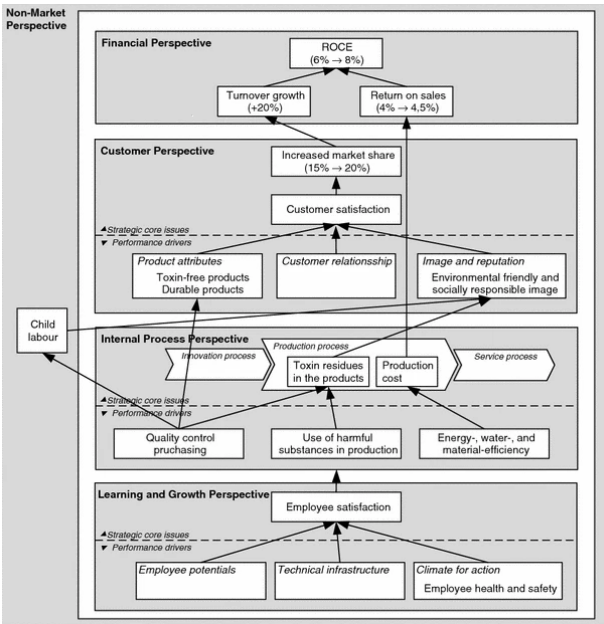
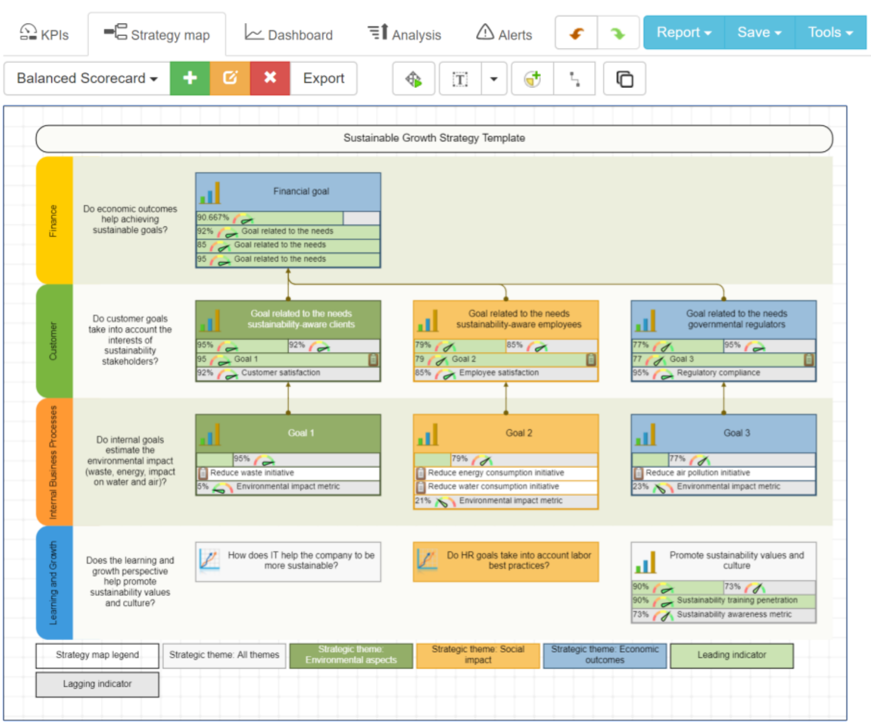
Sustainable Balanced ScoreCard



Hansen and Schaltegger (2016), The Sustainability Balanced Scorecard: A Systematic Review of Architectures

177



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Sustainable Balanced ScoreCard

Goal 5	Achieve gender equality and empower all women and girls	Objective 5.5 - Women's equal opportunities for leadership 47 5.5.1 - Proportion of seats held by…

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SUSTAINABILITY, ACCOUNTABILITY AND ETHICS

Master in Accounting

2024/2025

PEDRO DE ALMEIDA FERNANDES
pafernandes@iseg.ulisboa.pt

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ESG metrics

Lisbon School of Economics & Management
Universidade de Lisboa

'Indicators of sustainable development need to be developed to provide solid bases for decision-making at all levels and to contribute to a self-regulating sustainability of integrated environment and development systems"
(UN, Agenda 21, Chapter 40.4)

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ESG metrics

Lisbon School of Economics & Management
Universidade de Lisboa

Environmental

Conservation of the natural world

- Climate change and carbon emissions
- Air and water pollution
- Biodiversity
- Deforestation
- Energy efficiency
- Waste management
- Water scarcity

Social

Consideration of people & relationships

- Customer satisfaction
- Data protection and privacy
- Gender and diversity
- Employee engagement
- Community relations
- Human rights
- Labor standards

Governance

Standards for running a company

- Board composition
- Audit committee structure
- Bribery and corruption
- Executive compensation
- Lobbying
- Political contributions
- Whistleblower schemes

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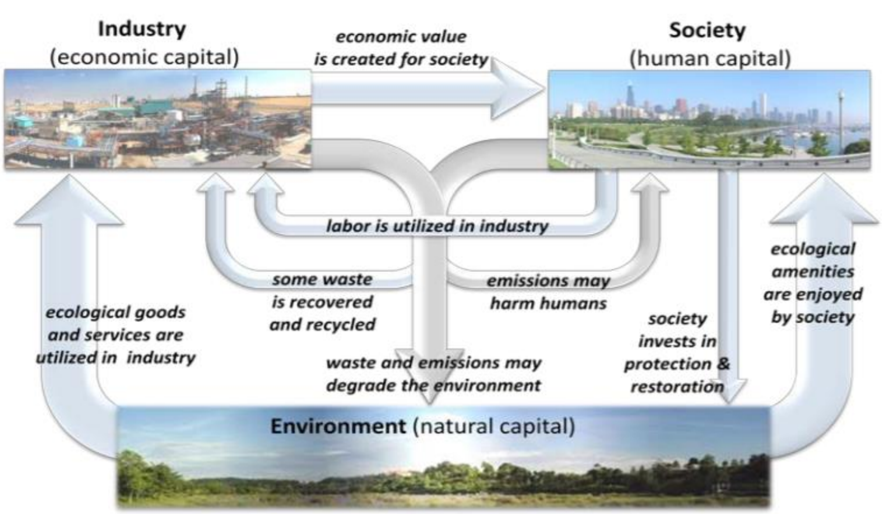
ESG metrics

1. ESG factors are often interlinked
2. ESG factors can often be measured, but it can be difficult to assign them a monetary value
3. ESG investing grew out of investment philosophies such as Socially Responsible Investing (SRI) but there are differences – exclusionary filters versus inclusive criteria

Contrasting and comparing sustainable development indicator metrics. Available from: https://www.researchgate.net/publication/223804576_Contrasting_and_comparing_sustainable_development_indicator_metrics [accessed Sep 09 2020].

183

Systems taxonomy for resource flow indicators



EPA (2012)

184

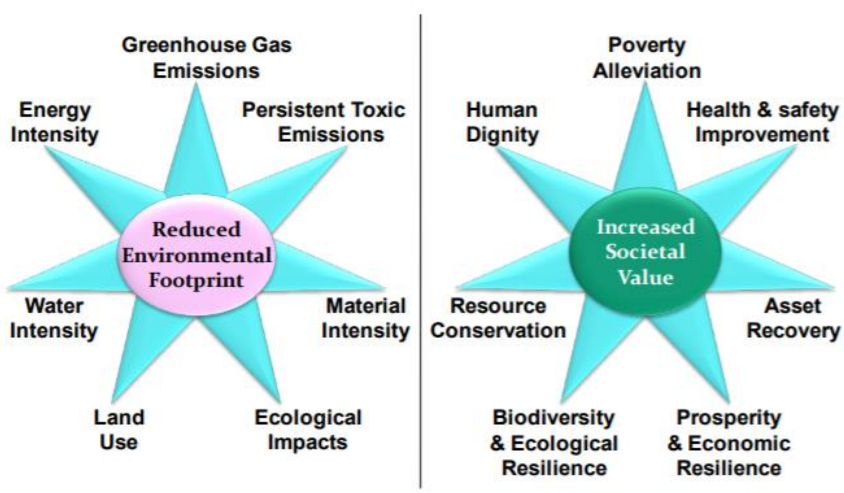
Major Categories of System-Based Indicators

Indicator Category	Indicator Types	National Scale Examples	Community Scale Examples
Resource Flow Indicators	• Volume • Intensity • Recovery • Impact • Quality	• Greenhouse gas emissions • Material flow volume • Resource depletion rate	• Greenhouse gas emissions • Material flow volume • Water treatment efficacy • Recycling rate • Land use
Value Creation Indicators	• Profitability • Economic Output • Income • Capital Investment • Human Development	• Cost (reduction) • Fuel efficiency (gain) • Energy efficiency (gain)	• Cost (reduction) • Fuel efficiency (gain) • Energy efficiency (gain) • Vehicle use (miles per capita)
Adverse Outcome Indicators	• Exposure • Risk • Incidence • Impact • Loss • Impairment	• Health impacts of air pollution • Public safety • Life cycle footprint of energy use	• Health impacts of air pollution • Public safety • Sewer overflow frequency
System Condition Indicators	• Health • Wealth • Satisfaction • Growth • Dignity • Capacity • Quality of Life	• Air quality • Water quality • Employment • Household income	• Air & water quality • Local employment • Local household income • Housing Density • Infrastructure durability • Community educational equity

EPA (2012)

185

Typical categories of sustainability indicators



EPA (2012)

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Examples of Sustainability Indicators Used Worldwide

Poverty
- Unemployment rate
- Poverty index
- Population living below poverty line

Population Stability
- Population growth rate trend
- Population density

Human Health
- Average life expectancy
- Access to safe drinking water
- Access to basic Sanitation
- Infant mortality rate

Living Conditions
- Urban population growth rate
- Floor area per capita
- Housing cost

Coastal Protection
- Population growth
- Fisheries yield
- Algae index

Agricultural Conditions
- Pesticide use rate
- Fertilizer use rate
- Arable land per capita
- Irrigation % of arable land

Ecosystem Stability
- Threatened species
- Annual rainfall

Atmospheric Impacts
- Greenhouse gas emissions
- Sulfur oxide emissions
- Nitrogen oxides emissions
- Ozone depleting emissions

Generation
- Municipal waste
- Hazardous waste
- Radioactive waste
- Land occupied by waste

Consumption
- Forest area change
- Annual energy consumption
- Mineral reserves
- Fossil fuel reserves
- Material intensity
- Groundwater reserves

Economic Growth
- GNP
- National debt/GNP
- Average income
- Capital imports
- Foreign investment

Accessibility
- Telephone lines per capita
- Information access

Sources:
United Nations, *Indicators of Sustainable Development*
World Bank, *World Development Indicators*

EPA (2012)

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ESG metrics

EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

	E Environmental	S Social	G Governance	V Longterm Viability
General: ESGs which apply to all industry-groups	ESG 1 Energy efficiency ESG 2 GHG emissions	ESG 3 Staff turnover ESG 4 Training & qualification ESG 5 Maturity of Workforce ESG 6 Absenteeism rate	ESG 7 Litigation risks ESG 8 Corruption	ESG 9 Revenues from new products

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ESG metrics

EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

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Integrated reporting framework

What is Integrated Reporting?

' A concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.'

Paul Druckman, CEO of IIRC, 2013

HOW VALUE IS CREATED? Communicate the full range of factors that materially affect value

The International Integrated Reporting Council (IIRC) defines an integrated report as one that 'brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operate

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Integrated reporting framework

10 YEARS OF INTEGRATED REPORTING ⟨IR⟩

Concise communication on how organizational strategy and management lead to value creation:

www.youtube.com/watch?v=EFm0sKeBLh0

https://://www.youtube.com/watch?v=Hx4dvrIunpw

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Integrated reporting framework

- Interrelates financial with non-financial reporting to provide an **integrative and comprehensive overview of the business** activities of a company, their results, and consequences for people and the environment.
- While sustainability reports and nonfinancial reports can be disclosed autonomously, an integrated report represents a **single report** that includes not only social and ecological but also economic aspects. In that sense, integrated reports are comprehensive, reflecting a **holistic perspective** on business activity.

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Integrated reporting framework

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Integrated reporting framework

What does the organization do and what are the circumstances under which it operates?

How does the organization's governance structure support its ability to create value in the short, medium and long term?

What is the organization's business model?

What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?

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Integrated reporting should provide:

Insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term and to its use of and effects on the capitals.

Insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.

Information about matters that substantively affect the organization's ability to create value over the short, medium and long term.

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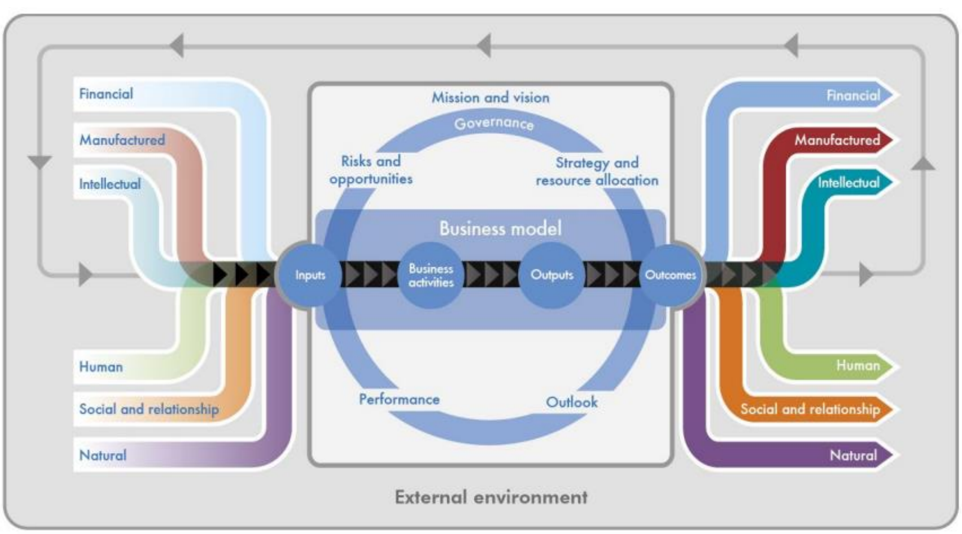
Integrated reporting should provide:



Holistic picture of dependencies between the factors that affect organization's ability to create value over time.

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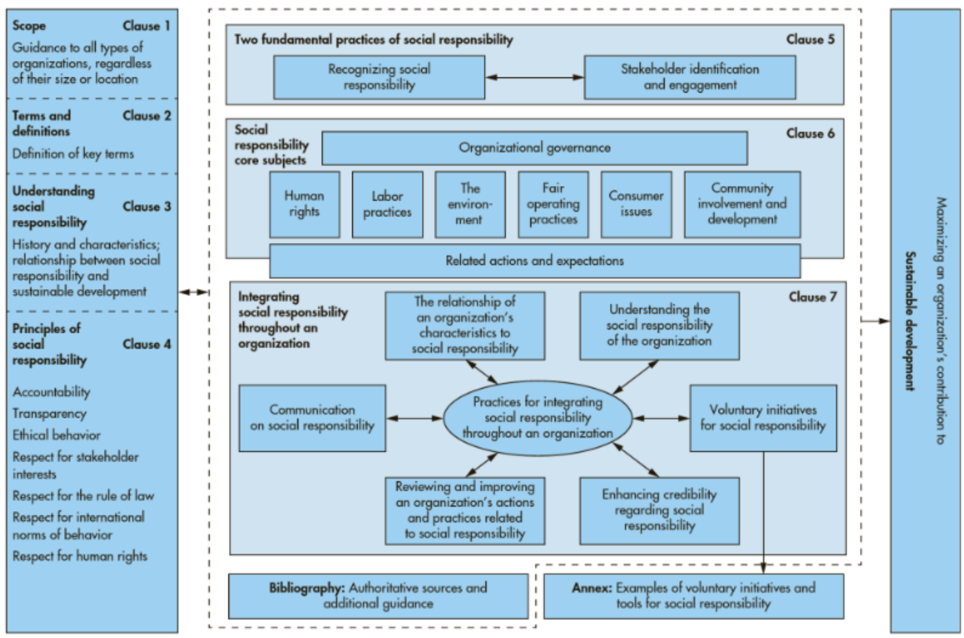
FIGURE 7.5 Schematic Overview of *ISO 26000*: Guidance on social responsibility[31]



Brooks, L. Dunn. P. (2018), Business & Professional Ethics for Directors, Executives & Accountants

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What to report as non-financial information?

Disclosure Recommendations *(continued)* from Financial Stability Board

The four recommendations are supported by **specific disclosures** organizations should include in financial filings or other reports to provide decision-useful information to investors and others.

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Recommended Disclosures	**Recommended Disclosures**	**Recommended Disclosures**	**Recommended Disclosures**
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

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Danone's reporting case

- Multinational food company based in Paris
- Danone has a history of social and environmental consciousness
- Danone has learned that is not enough to have internal systems and data

- **Standards**:
  - Carbon Accounting
  - GRI
  - IIRC (pilot project)
  - Danone's own integrated reporting
  - Certified B Corporation – www.bcorporation.net

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Danone's reporting case

Decision:

1) IIRC framework
2) Tailored IR
3) Existing sustainability report

- **Insights**:
  - Choosing and implementing a NFR standard
  - Interrelationship between corporate culture and NFR
  - Each standards has its own benefits and drawbacks
  - Importance of the audience (articulate interests)

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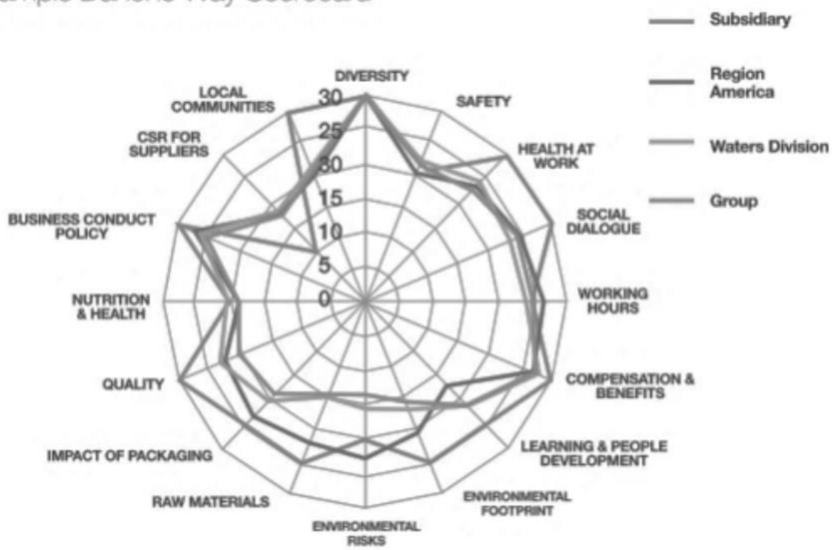
EXHIBIT 1: THE DANONE WAY SCORECARD

Sample Danone Way Scorecard



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DETAILED RESULTS

Fundamentals		Policies	Points	Indicators	Points	Total
DH2	DIVERSITY	4	90	4	90	60
DH3	SAFETY	5	20	5	20	40
DH4	HEALTH AT WORK	4	90	4	90	60
RH1	SOCIAL DIALOGUE	4	90	4	90	60
RH2	WORKING HOURS	5	20	4	90	50
RH3	COMPENSATION & BENEFITS	4	90	4	90	60
RH4	LEARNING & PEOPLE DEVELOPMENT	4	90	5	20	50
ENV1	ENVIRONMENTAL FOOTPRINT	5	20	4	90	50
ENV2	ENVIRONMENTAL RISKS	5	20	5	20	40
ENV3	RAW MATERIALS	5	20	4	90	50
ENV4	IMPACT OF PACKAGING	5	20	4	4	50
CO1	QUALITY	4	90	4	90	60
CO2	NUTRITION & HEALTH	5	20	5	20	40
GOV1	BUSINESS CONDUCT POLICY	4	90	4	90	60
GOV2	CSR FOR SUPPLIERS	2	10	2	10	20
GOV3	LOCAL COMMUNITIES	4	90	4	90	60
	Results [illegible]		990		920	810
	Total out of 1000					844
	Star Challenge	* * * *				

Source: Company files.

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Danone's reporting case

DANONE
ONE PLANET. ONE HEALTH

ASSIGNMENT QUESTIONS

1. Why do companies report on the non-financial dimensions of their businesses?
2. What different frameworks and standards are available to Danone for reporting non-financial information?
3. What are the key differences between Danone's view and the IIRC's view of integrated reporting or <IR>? How important are these differences to a company's reporting process?
4. If you were Laura Palmeiro, what would you decide?

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SUSTAINABILITY, ACCOUNTABILITY AND ETHICS

Master in Accounting

2024/2025

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Agenda

ACCOUNTABILITY AND SUSTAINABILITY

FINANCIAL REPORTING

NON-FINANCIAL REPORTING

ETHICS

RESEARCH

TOPICS

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Ethics - definitions

- Branch of philosophy which seeks to address questions about morality, good and bad, right and wrong, justice, virtue
- Rules of conduct or moral principles that guide individual or group behaviour.
- Set of moral values and standards that guide our conduct and depend on each society's context.

Morality concept

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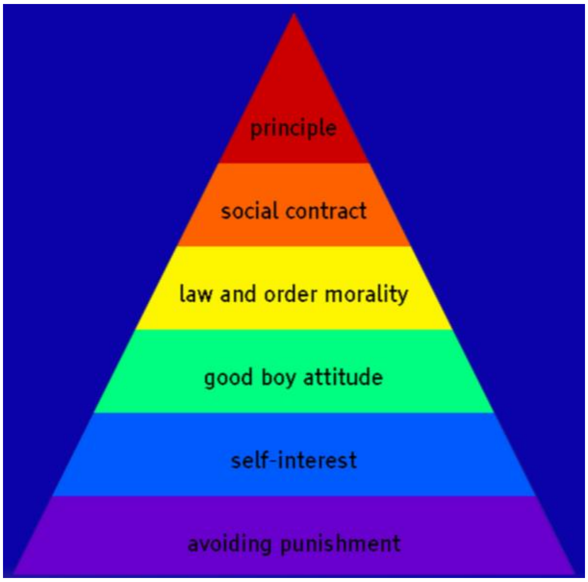

Stages of moral development by Kohlberg

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Ethics - definitions

- Ethics is different from compliance! Ethics is a value based approach, not a set of rules.
- **Ethical dilemmas may include:**
  - Budget constraints
  - Decision-making responsibility
  - Health concerns may conflict with constraints of resources
  - Career expectations may conflict with sustainable practices

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Ethics and Accountability

In business, ethics and accountability go hand in hand.

Accountability is the readiness or preparedness **to give an explanation or justification to stakeholders** for one's judgments, intentions and actions. The accountable actor is "held to external oversight, regulation, and mechanisms of punishment aimed to externally motivate responsive adjustment in order **to maintain adherence with appropriate moral standards of action**." Bivins, T. (Ed.) (2006). Responsibility and accountability. SAGE Publications, Inc., https://dx.doi.org/10.4135/9781452204208

Ethics provide accountability between the public and the administration. Adhering to a **code of ethics** ensures that the public receives what it needs in a fair manner. It also gives the administration guidelines for **integrity** in their operations. That integrity, in turn, helps foster the **trust** of the community.

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Ethics and CSR

What is CSR?

"**Corporate Social Responsibility** is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."

The World Business Council for Sustainable Development

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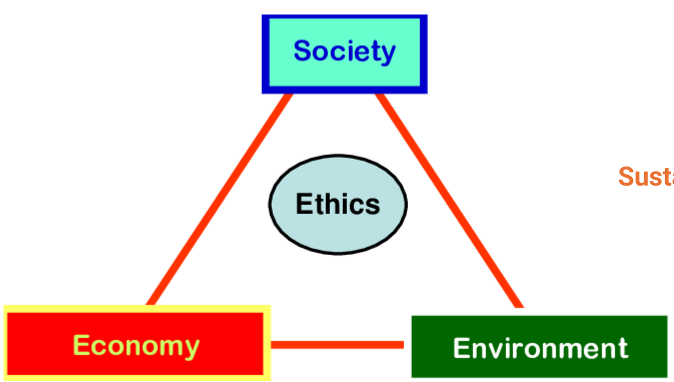
Ethics and Sustainability



Sustainability Triangle and Ethics

Sustainable Energy: Balancing the Economic, Environmental and Social Dimensions of Energy
O'Neill-Carillo et al. (2008)
https://www.researchgate.net/publication/224384094_Sustainable_Energy_Balancing_the_Economic_Environmental_and_Social_Dimensions_of_Energy

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Environmental ethics

- The branch of ethics that examines the questions of moral right and wrong relating to management, protection or endangerment of the natural environment
- A cluster of beliefs, values and norms regarding how humans should interact with the environment.

Sustainability ethics

- Issues regarding moral obligations to future generations with respect to environment.

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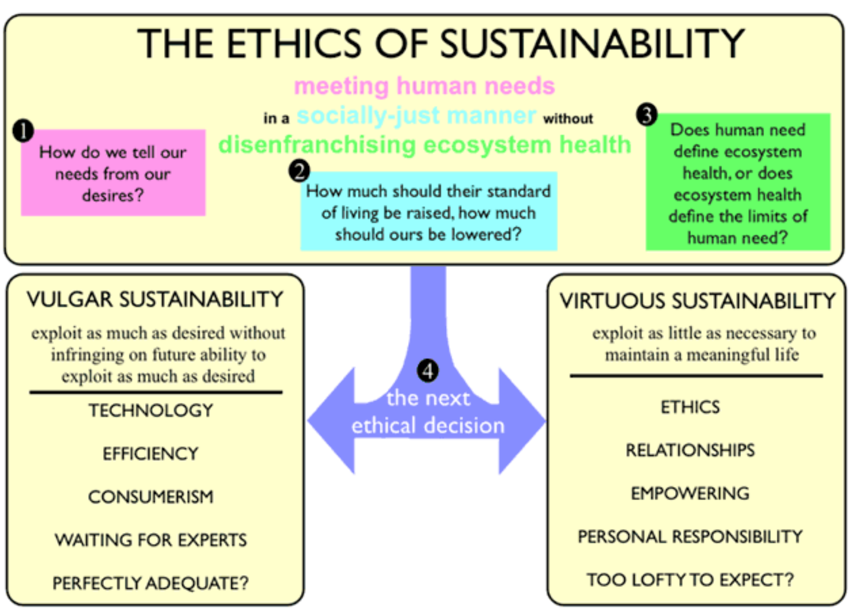

[True sustainability needs an ethical revolution (theecologist.org)]

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Ethics in business

- Guidelines and codes of behaviour when faced with dilemmas in business.
- The study of appropriate business policies and practices regarding potentially controversial subjects including corporate governance mechanisms, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities.
- Basic guidelines that businesses can choose to follow to gain public approval.

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Ethical business practices

- **Investor's perspective:** Ensure timely payment of interest and safety of their money.
- **Employee's perspective:** Provision of fair opportunities in promotions and training, good working environment and timely payment of salaries.
- **Customer's perspective:** Complete information about the products/services, protection of personal information (should not be used for personal gain).
- **Competitor's perspective:** Focus on scrupulous tactics, transparency and non-collusion behaviour.
- **Government's perspective:** Avoiding corruption and bribing, compliance with rules and regulations regarding taxes and other duties.

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SUSTAINABILITY, ACCOUNTABILITY AND ETHICS

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Ethics in accounting

Professional accountant

- Might be an employee, contractor, partner, director (executive or non-executive), owner-manager, or volunteer of an employing organization. The legal form of the relationship of the accountant with the employing organization has **no bearing on the ethical responsibilities** placed on the accountant.
- A professional accountant shall comply with the fundamental principles.

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Ethics in accounting

Code of ethics - contents

- The **Code of Ethics for Professional Accountants** is set by the International Ethics Standards Board for Accountants® and establishes the:
  - international ethical requirements for professional accountants, including auditor independence requirements;
  - fundamental principles of ethics for professional accountants – standards of behavior expected as professional accountant;
  - conceptual framework that professional accountants are to apply in order to identify, evaluate and address threats to compliance with the fundamental principles.

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Ethics in accounting

Code of ethics - structure

PART 1 | Complying with the Code, Fundamental Principles and Conceptual Framework (Sections 100 to 199) *(All Professional Accountants)*

PART 2 | Professional Accountants in Business (PAIBs) (Sections 200 to 299)
(Part 2 is also applicable to individual PAPPs when performing professional activities pursuant to their relationship with the firm)

PART 3 | Professional Accountants in Public Practice (PAPPs) (Sections 300 to 399)

PARTS 4A & 4B | International Independence Standards
Part 4A—Independence for Audits & Reviews (Sections 400 to 899)
Part 4B—Independence for Assurance Engagements Other than Audit & Review Engagements (Sections 900 to 999)

GLOSSARY | *(All Professional Accountants)*

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Ethics in accounting

Code of ethics - delivery

- It is delivered in a digital platform (eCode) and it:
  - Is an effective as of June 15, 2019;
  - Is a web-based tool;
  - Includes "app-like" features and functionalities, which better demonstrates the Code's "building blocks" architecture and scalability.

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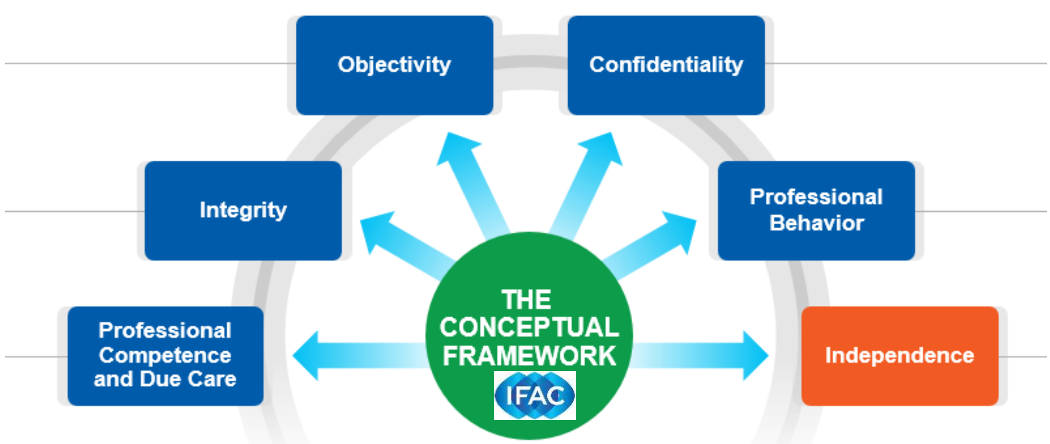
Ethics in accounting

Code of ethics – fundamental principles



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Fundamental Principles

Professional competence and due care requires the professional accountant to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations.

Integrity requires the professional accountant to be straightforward and honest, seeking further audit evidence to address concerns about statements that might be materially false or misleading

Objectivity requires the professional accountant not to compromise professional or business judgment because of bias, conflict of interest or the undue influence of others.

Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.

Professional Behavior – to comply with relevant laws and regulations and avoid any conduct that the professional accountant knows or should know might discredit the profession.

Independence is linked to the fundamental principles of objectivity and integrity.

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Ethics in accounting

Code of ethics – threats

Threats are any professional activities, interests and relationships that might compromise compliance with the fundamental principles.

Categories:

- Self-interest
- Self-review
- Advocacy
- Familiarity
- Intimidation

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Ethics in accounting

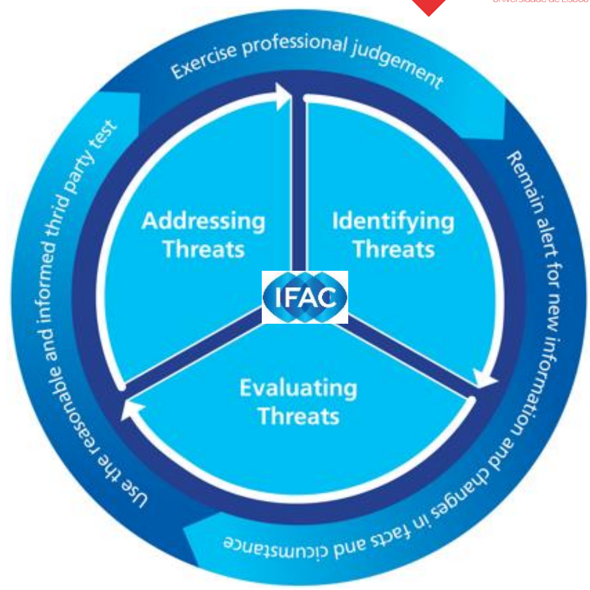
Managing Threats

The conceptual framework specifies an approach for a professional accountant to:

(a) **Identify** threats to compliance with the fundamental principles;

(b) **Evaluate** the threats identified; and

(c) **Address** the threats by eliminating or reducing them to an acceptable level.



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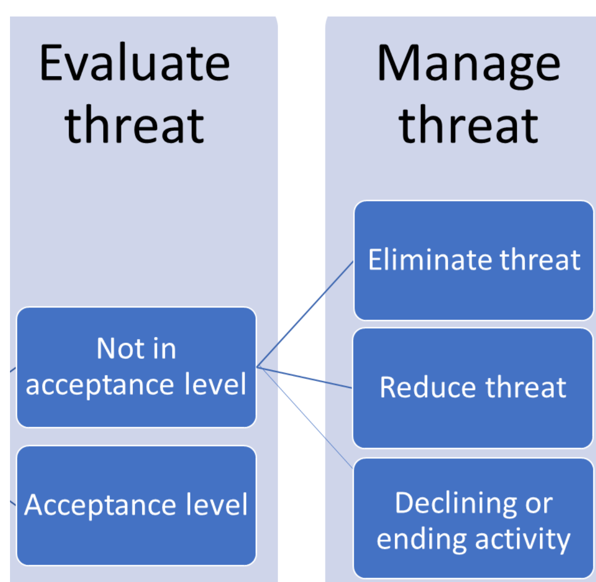
Ethics in accounting

Managing Threats

- The accountant shall evaluate whether such a threat is at an **acceptable level**
- The **third party test** is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party.



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Offering or accepting inducements

An **inducement** is an object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour.

Inducements can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations.

An inducement can take many different forms: ● Gifts. ● Hospitality. ● Entertainment. ● Political or charitable donations. ● Appeals to friendship and loyalty. ● Employment or other commercial opportunities. ● Preferential treatment, rights or privileges.

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Offering or accepting inducements

- Why this kind of situations may represent a threat to ethics in business?
- Which are the fundamental principles that might be affected?
- What circumstances are relevant to be considered?
- What actions may eliminate (or act as safeguards) to address these threats?

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Offering or accepting inducements

Now, consider the IFAC Code of Conduct:

- Identify the **threats** that are created by offering or accepting inducements.

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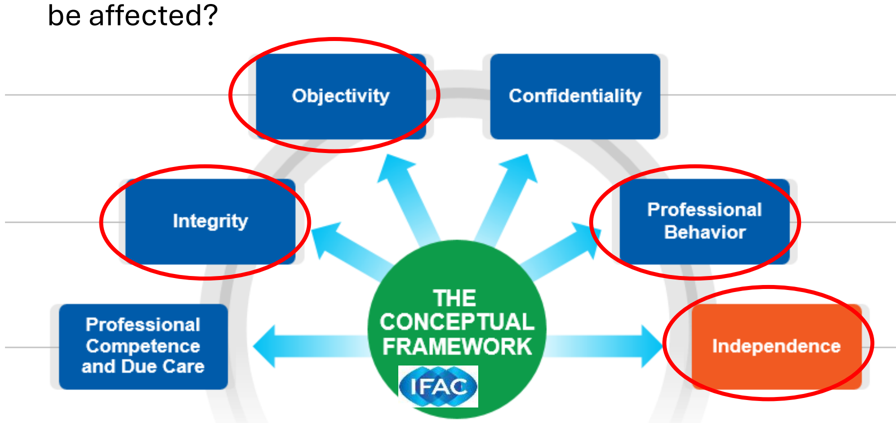
Offering or accepting inducements

Now, consider the IFAC Code of Conduct:

- Which are the **fundamental principles** that might be affected?



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Offering or accepting inducements

Now, consider the IFAC Code of Conduct:

- Give examples of possible **safeguards**.

Be transparent

Donate the inducement

Choose a reviewer

Return or reimburse

Ethics in accounting: conflict of interest

A conflict of interest creates threats to compliance with the principle of **objectivity** and might create threats to compliance with the other fundamental principles. Such threats might be created when:

(a) A professional accountant undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or

(b) The interest of a professional accountant with respect to a particular matter and the interests of a party for whom the accountant undertakes a professional activity related to that matter are in conflict.

A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

Ethics in accounting: professional judgment

Professional accountants are involved in the:

(i) preparation and presentation of information both within and outside the organization;

(ii) representation of facts in a accurate and complete way (materiality);

(iii) clear description of business transactions or activities;

(iv) classification and recording of information in a timely and proper manner.

In all these tasks, accountants shall exercise **professional judgment**

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Ethics in accounting: professional judgment

1. The **exercise of professional judgment** is required for the professional accountant to:
   - make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.
   - understand facts and circumstances.
   - conclude whether the fundamental principles have been complied.

2. Professional judgment involves the application of relevant training, professional knowledge, skill and experience

3. It's important to be aware of the:
   - need to consult with others with relevant expertise or experience;
   - need to have the information necessary to reach a conclusion;
   - accountant's own preconception or bias and if it might be affecting the accountant's exercise of professional judgment.

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Ethics and governance

- Agency Theory
  - **Agency relationship** - Relationships between business owners (principals) and decision-making specialists (agents) hired to manage principals' operations and maximize returns on investment.
  - **Agency problems** - When managers put their own self-interest ahead of the interests of those shareholders - Managerial Opportunism: an attitude or set of behaviors based on self-interest

- How CG mechanisms used to monitor/control management decisions can foster ethical strategic decisions?
  - Preventing agents from acting opportunistically
  - Managing the relationships (and conflicting interests) among stakeholders
  - Aligning strategic decisions with company values
  - Paying incentives/bonus to control manager's behavior

- Ethically responsible companies design and use governance mechanisms that serve all stakeholders' interests

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Building a culture of ethics and compliance

- Codes of conduct for employeed that are well communicated through the organization;
- Mandatory training on compliance with rules;
- Clear policies and procedures;
- Regular internal audits;
- Strong leadership (in hierarchical cultures it is a key factor);
- Making ethical views clear, walking the walk and responding to both ethical and unethical behavior in the workplace;
- Organization's social memory (more than a set of policies);
- Public support for anti-fraud measures;
- Honesty reputation.

Showing that you value ethics and accountability can create a climate where employees speak up.

"We ask our people to persist and prevail, not to take shortcuts." (CEO of an indian company)

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Ethical dilemma: A case of illegal dumping and whistleblowing

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Adapted from Journal of Business Cases and Applications (volume 20)

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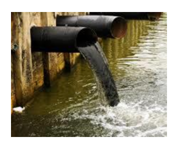
Ethical dilemma



Question 1.
The Stakeholder model helps provide a framework to identify the implications of John's decision. Various **groups affected by the ethical decision** include employees, customers, shareholders and the general public. While John may feel compelled to protect his job and his employer by keeping quiet in the short-term, the long-term impact of that decision may have more harmful effects on the environment, and thus shareholders, employees and customers.

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Ethical dilemma

Question 2.
There are several pros and cons to each approach.
An advantage of **going directly to his supervisor** includes confronting the problem head-on and stopping further damage, but a potential con would be losing his job.
An **anonymous letter** would protect his identity and possibly save his job, but a con would be if it is not take seriously or covered up again.
Ignoring the problem protects his job in the short term, but allows the problem to persist, which is likely to damage the company's brand and reputation in the long term.

Ethical dilemma

Question 3.
At the **pre-conventional stage**, John would likely prevent himself from getting in trouble resulting in the wrong long-term decision.
At the **conventional stage**, John might feel compelled to do something, but also to protect his identity so that he is not judged harshly by the company.
At the **postconventional stage**, John would be compelled to do the right thing because he believes it to be the moral choice, which might result in him approaching his supervisor directly, despite the potential harm to his position at the company.

Ethical dilemma

Question 4.
There are many risks to “blowing the whistle” on an employer, such as potentially losing one’s employment, facing diminished career prospects and social risk of being labelled a snitch.
However, the risk of not reporting unethical and/or illegal actions, can be much more damaging in the long-term to the various stakeholders.

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SUSTAINABILITY, ACCOUNTABILITY AND ETHICS

Master in Accounting

2024/2025

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Agenda

ACCOUNTABILITY AND SUSTAINABILITY

FINANCIAL REPORTING

NON-FINANCIAL REPORTING

ETHICS

RESEARCH

TOPICS

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Sustainability approaches

- Stakeholder theory
- Contingency approach – effective organizations must tailor their planning, organizing, leading, and controlling to their particular circumstances. The ability to adapt to external pressures and changes leverage the potential for learning.
- Legitimacy theory (firms have to conform to societal norms in order to prosper)
- Agency theory focuses on explaining the motivations and actions of both agents (i.e., managers) and principals (i.e., investors).
- Others: Resource-based view, institutional theory

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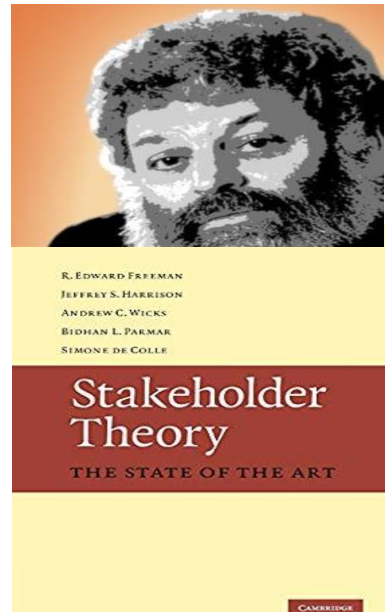
Stakeholder theory (Freeman, 1984)

- Dominant paradigm of corporate social responsibility and sustainability.
- The company should aim to satisfy the interests and needs of its stakeholders, as opposed to merely focusing on maximizing profit for the owners.
- Companies need to create value for its owners, employees, customers, suppliers, creditors, and the wider community, balancing their demands in decision-making and defining priorities.
- Freeman advocates the ethical principle (corporate responsibility implies responsibility to all stakeholders).
- To Freeman, stakeholders are individuals and groups affected by, or affecting, directly or indirectly, policies, activities, and decisions of the company.
- Therefore, a company should not be viewed solely as an instrument of the owner, but as an organizational unity with influence on several groups that should function in symbiosis with one another.



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Sustainability studies – 3 research lines

- Research Line 1: Valuation relevance of corporate environmental performance information and has found that such information is valuable to investors seeking to assess environmental liabilities in different settings.
- Research Line 2: Factors affecting managerial decisions to disclose potential environmental liabilities. This group of studies finds that there are strategic factors affecting firms' decisions to disclose environmental liability information, especially when disclosures are discretionary.
- Research Line 3: Relation between environmental disclosures and environmental or economical performance.

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Some research questions…

i. What are the motivations and benefits for companies and for whom do they publish sustainability reports?

ii. What are the determinants for NFR? Are size of the organization, level of profitability, or gender diversity on the board determinants?

iii. What are the barriers for NFR?

iv. Is there any relationship between NFR and firm visibility/legitimacy?

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i. Motivation for NFR / CSR

- Firms disclose for two main reasons (Moser et al, 2012):

(1) to conform to societal expectations and thereby ensure continued access to resources, such as capital, customer support (Legitimacy theory);

(2) to provide additional information that allows capital market participants to more accurately assess firms' financial prospects and risk profiles, potentially leading to higher share prices and higher firm values (Agency theory).

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i. Motivation for NFR / CSR

- Other motivations (Kramer, 2006):

- a new level of consciousness;
- growing and visible pressure of the environment;
- avoid material risks (including the risk to reputation);
- new opportunities of value creation to ensure permanent business;
- distinguish themselves from less responsible companies.

- Visionary entrepreneurs with social responsibility as their foundation (Baron, 2014).

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i. Benefits of NFR / CSR

✓ **Cost and risk reduction** – compliance with environmental legislation and positive relationships with the community reduce risks and costs (Berman *et al.*, 1999).

✓ **Competitive Advantage** - increased consumer loyalty is often the result of the adoption of NFR (Pivato et al., 2008). Socially responsible companies attract more investment (Smith *et al.*, 2005). Business commitment to stakeholder requirements creates competitive advantage (Kurucz *et al.*, 2008).

✓ **Reputation Development** – to be more socially responsible attracts investors, consumers and workers (Smith, 2003, Brammer and Pavelin, 2004).

✓ **Value creation** - the involvement of all related parties allows greater financial performance (Carroll and Shabana, 2010).

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ii. Determinants of NFR

- Studies indicate that **firm size**, **growth opportunities**, **profitability**, **gender diversity** on the board, or the **assurance** of nonfinancial reports positively correlate with the adoption of integrated reporting (Reimsbach et al, 2018).
- Several **country-level determinants**, such the legal system, value system, and the intensity of market coordination, have been considered as potential determinants (Reimsbach et al, 2018).
- Factors that influence sustainability reporting are **corporate characteristics**, general context factors, country-specific impact factors, and internal factors (Pütter, 2017).
- In a comprehensive research study on sustainability reporting in European countries, economic development, globalization level, civil society, **cultural differences**, and regional patterns are examined as the determinants of sustainability reporting (Horváth *et al*., 2017).
- Prior regulation, **local institutional characteristics**, **ownership**, **industry**, and auditors have an impact on the quality of disclosures. On the contrary, pressures from the community or society at large are not yet a determinant institutional factor (Dumitru *et al*., 2017).
- Type of industry, the size of the company and profitability are determinants, whereas leverage is not (Kilic *et al*., 2017)

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iii. The barriers (Osmanagić, 2016)

- the fear that sustainable business practice will increase business costs in relation to competition;
- difficulties devising useful KPIs, targets, measures, and controls to entrench sustainability in the organization;
- problems aligning social and environmental efforts with financial ones.

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iv. Sustainability and Legitimization

According to Lindblom (1994), legitimacy is: "*A condition or status which exists **when an entity's value system is congruent with the value system of the larger social system** of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy*" (Lindblom, 1994: 2).

The reasons for achieving legitimacy are inherently **long-term-oriented** and are not limited to short-term transitory benefits, such as 'good press' or 'higher brand value'. In most SEA studies, legitimacy is viewed as a **symbolic resource**, which organisations seek and attempt to control through a number of actions and strategies, and which is referred to as **'strategic legitimacy'**.

Whilst **pragmatic legitimacy** is linked to the needs of specific groups of evaluators, the pursuit of **moral legitimacy** is based on judgements as to whether a specific organisational activity is the 'right thing to do' (Suchman, 1995).

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iv. Sustainability and Legitimization

- Companies disclose social responsibility information to **present a socially responsible image** so that they can legitimise their behaviours to their stakeholder groups and influence the external perception of reputation.
- Firms seeking to gain or maintain legitimacy have an incentive to use communication strategies, including financial report disclosures, to potentially **influence societal perceptions** (Downling and Pfeffer, 1975; Lindblom, 1994).
- This does not mean, however, that all environmental information included in financial reports is meant to serve as a legitimacy tool. It is important to distinguish between **litigation related and non-litigation related disclosure** (Patten, 2002).

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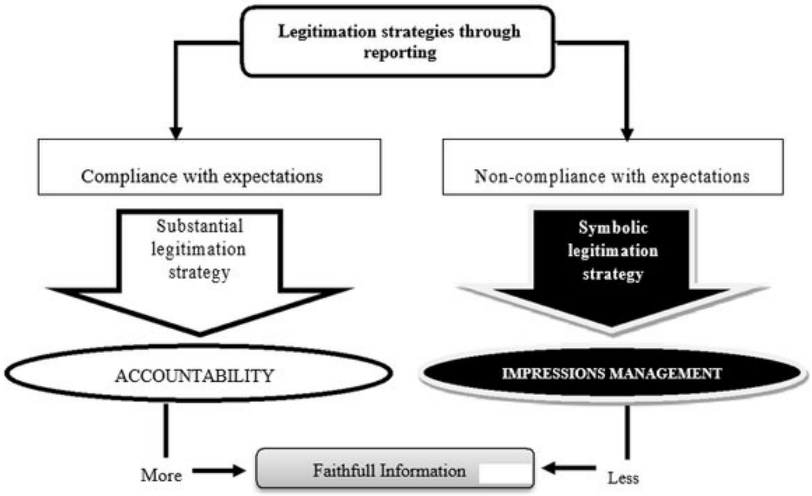
iv. Sustainability and Legitimization



Khelil-Rhouma, Z. *et al.* (2020)

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v. Other research topics

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Environmental disclosure quality in large German companies: Economic incentives, public pressures or institutional conditions? (Cormier, 2011)

Investors and stakeholders in continental Europe are becoming increasingly concerned about corporate environmental policies. As a result, many firms are voluntarily increasing the extent of their environmental disclosure in their annual report. While mostly unregulated, corporate environmental disclosure does have potential economic significance considering the scarcity of alternative information sources. The purpose of this study is to **identify determinants of corporate environmental disclosure using multi-theoretical lenses that rely on economic incentives, public pressures and institutional theory.** The study focuses on large firms from a continental Europe country, Germany, with a distinct legal and regulatory context and where environmental concerns are especially acute. Results show that **Risk, Ownership, Fixed Assets Age, Firm Size** as well as routine determine the level of environmental disclosure by German firms in a given year. Moreover, consistent with institutional theory, results suggest that German firms' disclosure is converging over time. Overall, results strongly suggest that environmental disclosure is multidimensional and is driven by complementary forces.

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Factors influencing the quality of corporate environmental disclosure
Brammer, S. et al (2006)

Abstract

Many firms choose to communicate their environmental strategies through voluntary environmental disclosures. This paper examines patterns in the quality of voluntary environmental disclosures made by a sample of around 450 large UK companies drawn from a diverse range of industrial sectors. The analysis distinguishes between five facets of quality, including the disclosure of group-wide environmental policies, environmental impact targets and an environmental audit. We examine how the decisions firms face regarding each facet of quality are determined by firm and industry characteristics and find **the quality of disclosure to be determined by a firm's size and the nature of its business activities**. Specifically, we find **high quality disclosure to be primarily associated with larger firms and those in sectors most closely related to environmental concerns**. In contrast to several recent contributions, we find that the media exposure of companies plays no role in stimulating voluntary disclosures.

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Does it pay to be *really* good? addressing the shape of the relationship between social and financial performance
Barnett e Salomon, 2012

Abstract
Building on the theoretical argument that a firm's ability to profit from social responsibility depends upon its stakeholder influence capacity (SIC), we bring together contrasting literatures on the relationship between corporate social performance (CSP) and corporate financial performance (CFP) to hypothesize that the **CSP-CFP relationship is U-shaped**. Our results support this hypothesis. We find that **firms with low CSP have higher CFP than firms with moderate CSP, but firms with high CSP have the highest CFP**. This supports the theoretical argument that SIC underlies the ability to transform social responsibility into profit.

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Revisiting the relation between environmental performance and environmental disclosure: An empirical analysis (Clarkson et al, 2008)

Previous empirical evidence provides **mixed results** on the relationship between corporate environmental performance and the level of environmental disclosures. We revisit this relation by testing competing predictions from economics based and socio-political theories of voluntary disclosure using a more rigorous research design. In particular, we improve on the prior literature by **focusing on purely discretionary environmental disclosures and by developing a content analysis index based on the Global Reporting Initiative sustainability reporting guidelines to assess the extent of discretionary disclosures** in environmental and social responsibility reports. This index better captures firm disclosures related to its commitment to protect the environment than the indices employed by prior studies. Using a **sample of 191 firms from the five most polluting industries in the U**S, we find a **positive association between environmental performance and the level of discretionary environmental disclosures**. The result is consistent with the predictions of the economics disclosure theory but inconsistent with the negative association predicted by socio-political theories. Nevertheless, we show that socio-political theories explain patterns in the data ("legitimization") that cannot be explained by economics disclosure theories.

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Social accounting and the co-creation of corporate legitimacy

Sheila Killian*, Philip O'Regan

Abstract
This paper explores **how social accounting can generate legitimacy** for a company within a local community, and reveals the essential role of the community itself in the process. We take an **in-depth case study approach using interviews** with both company and community actors, supported by analysis of a nine-year social accounting series. A **Bourdieusian frame** highlights the unarticulated nature of the roles played by various actors in the co-creation of a local account, and the way that increasing local participation in that accounting process gradually narrates the company into a position of authority. This has lasting impact on the community. **Social accounting produces a narrative that acquires symbolic power, directing legitimacy and power to the company, while restructuring the community's social relationships, self-identity, and patterns of accountability.** We conceptualise this social accounting process as analogous to mapmaking, iteratively drawing and redrawing the local social geography, prioritising the representation of the company over time in a process of thematic cartography which records growing local acceptance of, and deference to, the company. This has implications for our understanding of the power of account-giving and the impact of social accounting.

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Social accounting and the co-creation of corporate legitimacy

Sheila Killian*, Philip O'Regan

Focus:
Community involvement in the social accounting process in order to highlight the potential of the co-creation dynamic in corporate legitimation. **Social accounting as a process, rather than an output.**

Identifying gaps:
We address a lacuna identified in Owen (2008) who observes that while legitimacy is a widely accepted outcome of social accounting within the literature, “little attention appears to have been paid as to how (or whether) the legitimisation process itself works or what its effects might be.”

Enjoying research opportunity:
- co-creating a combined narrative;
- time lapse;
- context of Erris.

Methodology - Longitudinal study allows us to:
- Conceptualize the social accounting process (mapmaking);
- Representation of the company over time;
- Growing local social acceptance of the company.

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Fill previous gaps:
In our analysis, we respond to the call in Unerman and Chapman (2014) to pay "greater attention to the development and refinement of focused, novel theoretical framings" by using aspects of Bourdieusian thinking which are not commonly applied in work on social accounting.

Research method: in-depth case study approach, Bourdieusian frame
Data collection: interviews and 9 year social accounting dataset
Respondents: company actors and community actors

Case study context:
Royal Dutch Shell's Irish subsidiary, Shell E&P Ireland Ltd. (hereafter: Shell), and the community of Erris, a remote area in the northwest of Ireland with a particularly strong sense of history and tradition.
Shell embarked on a painstaking process of building relationships within the local community (Killian, 2010, Siggins, 2010). Over a nine-year period, the local element of the company's social accounting initiative became a key element in this strategy. The participation of community groups was pivotal in establishing the symbolic significance of social accounting (co-creating a combined narrative).

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Corporate Social Performance, Firm Size, and Organizational Visibility: Distinct and Joint Effects on Voluntary Sustainability Reporting

Philipp Schreck, Sascha Raithel

Business & Society, vol. 57, 4: pp. 742-778. First Published November 8, 2015.

Abstract

This study investigates the **distinct and joint effects of corporate social performance (CSP), firm size, and visibility on a company's decision to disclose sustainability-related information** through sustainability reports. It seeks to provide more nuanced explanations for why certain companies tend to extensively report on their sustainability performance. First, while prior studies have predominantly focused on environmental reporting, the current analysis considers comprehensive sustainability reports that include both environmental and social issues. Second, the article argues that the effects of **two important antecedents of legitimacy pressure—firm size and organizational visibility—should be analyzed separately** rather than restricting the analysis on the effects of legitimacy pressure per se. Third, it argues that the **hypothesized effects are nonlinear** because the marginal costs and benefits of sustainability reporting vary with a company's CSP level, its size, and its visibility in the public. Finally, although there is a strong link between **CSP and sustainability reporting, the strength of this link depends on its size and visibility.** The study of 280 companies in environmentally and socially sensitive industries provides considerable support for these hypotheses, including evidence that size and visibility independently affect sustainability reporting and that the shape of the CSP/sustainability reporting link is contingent upon firm size and visibility.

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Framework:
Whether these firms can reap the expected benefits of such engagement often depends on whether their stakeholders have sufficient and credible information about the firms' actual corporate social performance (CSP). Firms may, therefore, choose to voluntarily account for their sustainability performance (Brown & Fraser, 2006; Schaltegger & Burritt, 2006) and disclose that information to influence favorably the decisions of external stakeholders (Montiel, Husted, & Christmann, 2012; Narayanan, Pinches, Kelm, & Lander, 2000).

Research Questions:
Is it primarily the noble social performers that disclose, or is the decision to issue sustainability reports independent of actual social performance?
Why would companies with a nonsatisfactory social performance voluntarily disclose information regarding their inferior performance?

State of the art:
Literature review has identified two major drivers of voluntary sustainability reporting: CSP and legitimacy pressure.

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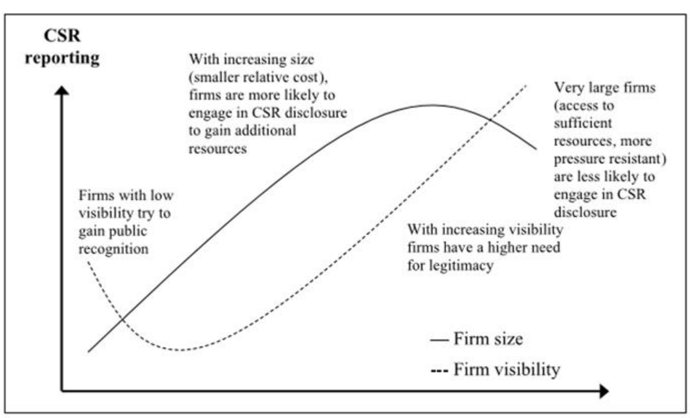

Figure 1. Hypothesized relationships between firm size/visibility and sustainability reporting.
Note. CSR = corporate social responsibility.

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i. Internal benefits for companies (GRI)

- Increased understanding of risks and opportunities
- Emphasizing the link between financial and nonfinancial performance
- Influencing long-term management strategy and policy, and business plans
- Streamlining processes, reducing costs and improving efficiency
- Benchmarking and assessing sustainability performance
- Avoiding being implicated in publicized environmental, social and governance failures
- Improving competitiveness and innovation of business.

https://www.globalreporting.org/information/sustainability-reporting/Pages/reporting-benefits.aspx#sthash.9h6fx0hd.dpuf

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i. External benefits for companies (GRI)

- Mitigating—or reversing—negative environmental, social, and governance impacts
- Improving reputation and brand loyalty
- Enabling external stakeholders to understand the organization's true value
- Ability to attract new customer base (and retain existing), investors and best-quality employees
- Improved shareholder value
- Increased profitability
- Ability to identify and manage reputational risks
- Better quality products and processes
- Improved relations with regulators/legislators

https://www.globalreporting.org/information/sustainability-reporting/Pages/reporting-benefits.aspx#sthash.9h6fx0hd.dpuf

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