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Review Article

Accounting for Economic Sustainability: Environmental, Social and Governance Perspectives

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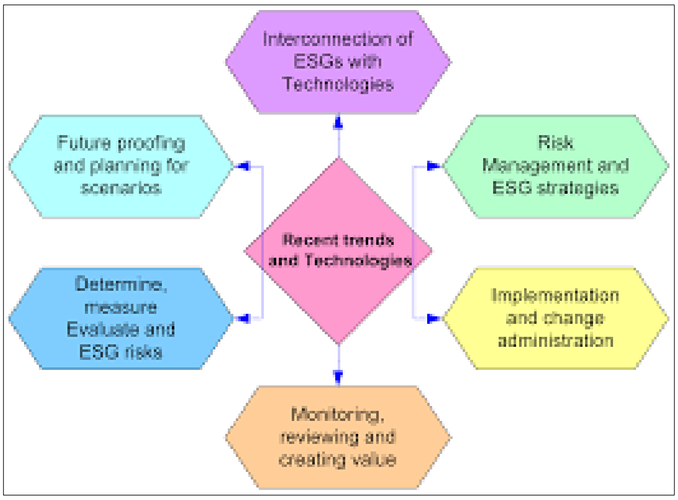
Abstract

The paper presents a comprehensive collection of the latest scholarly works on Environmental, Social, and Governance (ESG) perspectives in accounting. It aims to serve as a critical reference for students, academics, policymakers, analysts, and professionals engaged in this evolving field. By integrating interdisciplinary and multi-disciplinary perspectives and considering relevant societal and political dimensions, this publication aspires to become a staple resource in major university libraries and among policymakers and financial professionals worldwide.

Keywords: Environmental, Social, and Governance (ESG), Sustainability Accounting, Corporate Governance, Risk Management, Standardized Reporting, Interdisciplinary Perspectives, Multi-Disciplinary Approaches, Societal Values, Policy Making, Financial Professionals.

Graphical Abstract:



ESG Framework

INTRODUCTION

Sustainability accounting addresses a heterogeneous assortment of various activities aiming for the environmental, social, and economic sustainability of an organization – and the larger environment at the same time [1-3]. In these activities, a strong focus on risk management and -corporate governance can be identified and is often linked to ethical considerations [4-7]. As sustainability is such a widely recognized, yet still fluid concept regarding its definition, any attempt to understand the phenomenon holistically might need to take into account the interplay between organizational (power) structures and societal values [8-12]. This may be additionally relevant because most scholars agree that a match between the proposed value creation of an organization with the norms and values of a larger society leads to a higher legitimacy and reduces reputational and negotiation risks [13-16].

Both of the said aspects have a positive impact on resource flows and reduce the risk-adjusted cost of capital in turn [17]. Therefore, a focus on sustainability may well lead to a competitive advantage in addition to achieving the overarching aim of the Brundtland UN commission report "to meet the needs of the present without compromising the ability of future generations to meet their own needs" [18]. These potential commercial benefits of a strong organizational focus on sustainability however can only be fully harvested when properly controlled managed, and communicated with standardized metrics and reports [19]. Such standardization of sustainability reports may also be necessary to better fulfil the regulatory requirements concerning the reporting of non-financial information, which have been gradually introduced and expanded in recent years, with the EU directive 2014/95 being a salient example of these [20].

Looking at existing research – while most scholars agree on the value propositions of a focus on sustainability, few would yet settle on a clear definition [21], provide clear directions, or even agree on its scope [22]. What is more, said standardized instruments and reporting tools that holistically cover the broad concept of sustainability and social value creation are in their early adoption stages, despite massive efforts being put in by standardization boards such as the Sustainability Accounting Standards Board, the Global Reporting Initiative or the Global Impact Investing Network with their IRIS metrics [23-27]. Future research thus needs to deliver insights, that would allow the further fine-tuning of these instruments to the internal needs of organizations throughout their value-creation processes, and likewise, to achieve better transparency to their external stakeholders. Research could also certainly take on a more active role in the dissemination of the corresponding body of knowledge on sustainability accounting and its larger societal relevance to managers and scholars from other fields.

Summing up, while the level of activities and policy interest in various forms of sustainability accounting has been raised in recent years, details of the inner workings and motivations for related initiatives have been somewhat neglected so far in the academic literature. As foundations, individual- and group investors, the global internet crowd, and more and more government agencies have become increasingly interested and willing to support more socially, economically, and environmentally sustainable forms of funding and wealth creation, they are thus in dire need of suitable accounting and reporting instruments that include relevant and quantifiable ESG perspectives and allow for rational decision making.

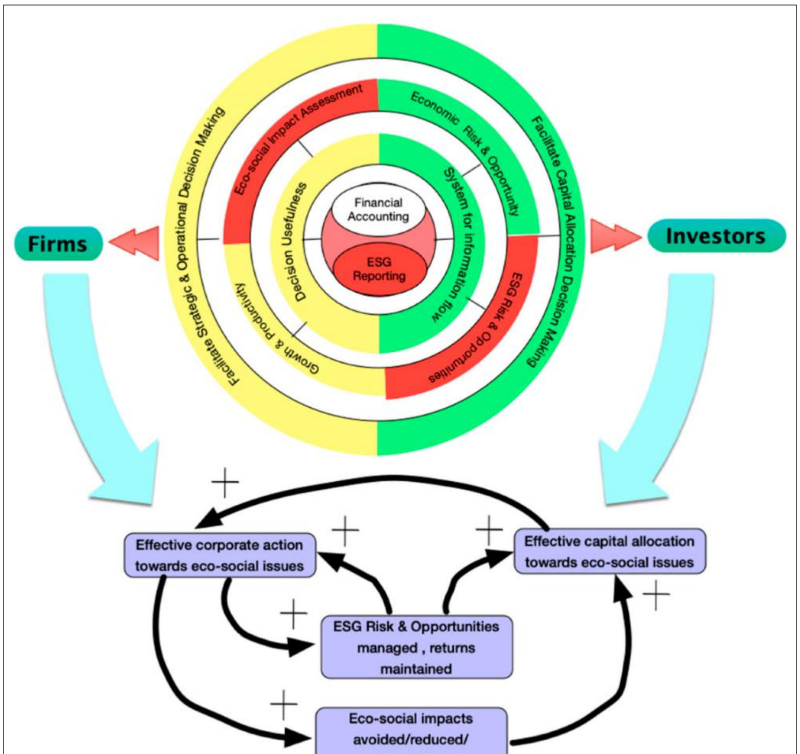


Figure 1: The current implementation of the financial accounting and ESG-reporting paradigm, which is commonly referred to as the ESG Dream

Figure 1 illustrates the execution of this ESG Dream is a poorly strengthened feedback loop as a result of specific obstacles that predominantly support the long-term viability of corporations rather than the attainment of fair, impartial, and sustainable societies. A positive sign indicates that a change in the influencing variable will result in a change in the same direction in the target variable.

The Purposes of the Research Paper Are Thus as Follows

To further clarify the concepts of environmental and social finance, risk, and accounting, to examine potential overlaps with existing good corporate governance and CSR structures, and further explore the impact on performance and market value and by this delineate the boundaries of ESG research; and to map out, display, and scale the disparate voices, traditions, and public and professional communities engaged in ESG accounting research and practice from various contexts and include a discursive perspective.

The large number of submissions of excellent papers for this research paper shows the relevance and societal importance of the topic, and we have carefully selected thirty-four papers out of all these to map out the dimensions as described above and provide a comprehensive view of ESG factors. In this, we tried to avoid a cultural bias and especially invited voices from different cultural contexts, with the ultimate goal of exploring what the field of accounting can provide to enhance all three, commercial as well as environmental and social sustainability.

The Following Thirty-Four Papers Have Been Selected

CSR Reporting and Assurance Legitimacy:

Client investigation picking up on the effect of sustainability reporting, [28] investigate the difficulties of legitimizing CSR reports to various stakeholder groups. While CSR reporting and the assurance of CSR reports has become an acknowledged research field [29], it is still in a nascent stage. Hence, following the call from various researchers [30-35], they conducted semi-structured interviews with CSR-related senior management positions in Fortune 200 companies. Their novel findings reveal that, in contrast to what existing literature holds a strong management involvement in CSR reporting does not counteract overall CSR legitimization. They provide evidence implying that the two antagonists in the literature, the management-as-champion of CSR, and a managerial capture need not be mutually exclusive within a firm when it comes to the creation of shareholder value and stakeholder assurance at the same time. As an outcome, they go on to explain that CSR-supportive management does not de-legitimize the overall reporting and assurance processes for shareholder value.

CSR Disclosure and Debt Financing

In the same context, yet from an external perspective to the organization, client evaluates the effect that ESG information in the CSR reports has on the access to debt financing (leverage-ratios) [36]. From an investor's perspective, prior literature already highlights the strong correlation between good CSR reporting and performance [37], and significant voices have shown the link of CSR reporting to enhanced stakeholder engagement as well as reduced opportunistic behavior [38-40]. Researchers evaluates the data from listed firms in France with proxies based on Bloomberg's ESG scores [41]. Their novel findings show that leverage ratios are positively related to CSR disclosure, pointing at an increased tendency for long-term and short-term debt financing when ESG information is disclosed. This further indicates better and less costly access to external debt financing. Figure 2 indicates sustainable accounting in short.

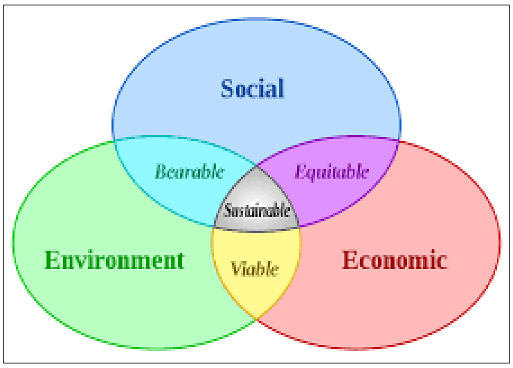


Figure 2: Sustainable Accounting

Building Institutional Legitimacy in Impact Investing: Strategies and Gaps in Financial Communication and Discourse

Providing information such as outlined above also enhances the overall transparency and thus reduces information asymmetries in the market. An issue, that researcher [42], is especially prevalent in the impact investing market, seems to be working at sub-par efficiency. The inherently high uncertainty that reigns in this market is found to be due to a lack of track records of ESG investors and organizations with an overarching social or environmental mission; the insufficient provision of information on social and environmental risks and returns for impact investments [43], and the missing clarity in the underlying definitions [44], that keeps regulators from coming up with tailored structures. The authors of this paper further address these gaps and ask how the concept of institutional legitimacy can help better understand the communication strategies of the various actors in the field. Their interesting findings highlight the diverse legitimization strategies in the sustainability reports of the various archetypes of actors and show how these, in turn, impact the flow of financial and non-financial resources.

The Alignment of Global Equity and Corporate Bonds Markets with the Paris Agreement – A New Accounting Framework

Addressing the financial reporting perspective, more specifically the triangulation of multiple data sources in reported information, researcher proposes a new accounting framework toward a 2° climate scenario under the Paris Climate Agreement (UNFCCC, 2015) [45]. The authors identify relevant information sources that yield accounting metrics in the global listed equity and corporate bond market and further propose an overhauled interpretation of [46], Capital Asset Pricing Model (CAPM). They further suggest that to make portfolios ready for a data-based transition toward a lower emissions investment scenario it is of foremost importance to choose correct and valid metrics for the corresponding input and output data (i.e. that the unit of accounting would be required to be consistent with the actual underlying climate data). This contrasts with the traditional CAPM model that focuses on the probability distributions of the underlying financial risk and returns metrics and requires homogeneous inputs over time.

Table 1: Theoretical Framework of the Article in Tabular Form

Concept	Description	References
Sustainability Accounting	Encompasses activities aiming for the environmental, social, and economic sustainability of an organization.	10-15
Risk Management and Corporate Governance	Focus on risk management and corporate governance linked to ethical considerations.	10-15
Interplay Between Organizational Structures and Societal Values	Understanding the phenomenon of sustainability accounting holistically by considering organizational power structures and societal values.	16-17
Commercial Benefits of Sustainability	Sustainability focus can lead to competitive advantage and meet the needs of present and future generations.	17-18
Standardization of Reporting	Need for standardized metrics and reports for better communication and regulatory compliance.	19
Definition and Scope of Sustainability	Lack of clear definitions and scope of sustainability in existing research.	20
Early Adoption of Reporting Tools	Early stages of adoption for standardized instruments and reporting tools covering broad sustainability concepts.	25
Future Research Needs	Insights are needed to fine-tune instruments for internal organizational needs and external stakeholder transparency.	26-30
Societal and Policy Interest	Increasing interest from investors, government agencies, and other stakeholders in sustainable forms of funding and wealth creation.	30-33
ESG Perspectives	Clarification of environmental and social finance, risk, and accounting concepts and their impact on performance and market value.	34-37
Mapping Disparate Voices and Traditions	Displaying diverse perspectives in ESG accounting research and practice from various contexts.	38-40

Table 1 summarizes the theoretical framework of the article by listing the key concepts, their descriptions, and relevant references from the document.

The Influence of ESG Information on Investment Allocation Decisions: An Experimental Study in an Emerging Country

Looking at the importance of ESG information from a country-specific context on Tunisia [47], researcher conducted a large-scale field experiment. Following fellow researcher, who claim that unlike financial communication [48], communication on social performance of Tunisian companies seems marginal, and fellow researcher [49], who show that voluntary disclosure policy in annual reports of Tunisian firms is seen by analysts as being minimalist; the authors' work shows that indeed, ESG disclosure has become more and more important for investment decisions in Tunisia, and they find that governance and social information has an even greater influence than environmental information when it comes to investments in this specific region.

Between Cost and Value: Investigating the Effects of Sustainability Reporting on a Firm's Performance

Researcher looks at the relationship between sustainability reporting and the corresponding financial, operational, and market performance by examining 342 financial institutions within 20 countries [50]. Her interesting findings show that while sustainability reporting creates market value through an impact on market performance, it does sometimes even negatively affect financial and operational performance. This creates an exciting paradox that should be tackled further by scholars revisiting for example the cost-of-capital reduction theory [51].

Interactive Visualization of Big Data in the Field Of Accounting: A Survey of Current Practice and Potential Barriers to Adoption

Taking on a technology-driven, cognitive perspective, researcher looks at the importance of using interactive visualizations [52-53], to make meaning of big data in accounting [54]. As correct management decision-making is vital for the economic sustainability of a company and the vast abundance of available information makes it harder than ever to discern the relevant bits and pieces from background noise this has become a serious issue. Especially, the level of aggregation and the cognitive load the processing of the data causes are in focus, when the authors research and discuss how future management reports need to provide a certain level of interaction between the data and the diverse audience [55]. With their research, they follow and contribute to important streams in the visualization [56], accounting information systems [57], and accounting education [58], communities. They find that the lack of knowledge and experience regarding new visualization types and interaction techniques, and the often sole focus on Excel as a visualization tool can be identified as the main barriers, while the use of multiple data sources and the gradual implementation of further software tools can be seen as main drivers for the adoption of interactive visualizations.

Board Composition and Corporate Risk-Taking: A Review of Listed Firms from Germany and the USA

This study focuses on the important governance question of board independence. In his paper, researcher looks at the proportion of independent directors on a board and examines the effects of this board composition on (excessive) corporate risk-taking [59]. More precisely, his research attempts to determine whether an increase in the proportion of independent directors mitigates corporate risk-taking, by controlling for either a one-tier or two-tier board system. Several studies have already examined the relationship between corporate governance and firm performance before [60], however, few studies combine board independence and unhealthy corporate risk-taking. Therefore, this paper provides early empirical evidence that an increase in the proportion of independent directors is indeed associated with less unhealthy corporate risk-taking. The results corroborate global and continued efforts to strengthen the diversity and independence of corporate boards and to improve the effectiveness of audit committees to curb unhealthy corporate risk-taking.

Understanding IFRS Adoption: Consideration of the Institutional Dimension through a Behavioural Context

Taking on a developing country perspective, researchers tries to discern the main behavioural factors that could affect the decision to adopt IFRS in developing countries [61]. With this paper, they respond to the lack of research into behavioural aspects of accounting while firmly grounding their hypotheses in the institutional theory. They take in the level of global innovation, the traces of normative, mimetic, and coercive isomorphism, and the degree of accounting conservativism as variables for their hypotheses' development. Using multivariate logistic regressions, they subsequently identify salient influential factors concerning the adoption of IFRS and discuss the role of the World Bank or the International Monetary Fund as drivers of coercive isomorphism. In addition, they demonstrate once again the usefulness of neo-institutional theory for accounting research and provide further insights from a policy-making perspective [62].

With these thirty-four papers, we sincerely hope to further the field by providing novel insights and inspiring research directions. We believe that the selected papers follow this approach and build theory, and hence this paper provides with a multi-perspective spectrum of contributions to the emerging field of sustainability accounting.

Summary

The study offers a comprehensive analysis and discourse on the present condition of environmental, social, and governance (ESG) viewpoints in the field of accounting. The statement highlights the importance of using consistent measurements and reporting methods to enhance transparency, adherence to regulations, and decision-making in sustainable accounting. The paper encompasses contributions from multiple researchers who investigate various aspects of ESG, such as the legitimacy of CSR reporting, the influence of ESG disclosure on debt financing, the credibility of institutions in impact investing, and the creation of new accounting frameworks that align with climate objectives.

Significant Contributions

The Legitimacy of CSR Reporting and Assurance

Explores the impact of robust management participation in corporate social responsibility (CSR) reporting on the legitimization of CSR, and how it might improve both shareholder value and stakeholder confidence.

Corporate Social Responsibility (CSR) Disclosure and Debt Financing

Illustrates a direct relationship between the disclosure of corporate social responsibility (CSR) and the ability to obtain debt funding, suggesting improved and more affordable external debt financing.

The Concept of Institutional Legitimacy in Impact Investing

Examines various tactics used to legitimize sustainability reports and their influence on the allocation of resources.

A novel accounting framework is proposed for the Paris Agreement, aiming to synchronize financial portfolios with a 2° climate scenario. The system places significant emphasis on the necessity of using consistent and reliable measures.

Analysis of the Relationship between Sustainability Reporting and Company Performance

Discovers that although sustainability reporting might enhance market value, it can also have adverse effects on financial and operational performance.

Visualizing Large-Scale Data in the Field of Accounting Using Interactive Methods

Identifies obstacles and motivators for using interactive visualizations in accounting to enhance decision-making.

Analysis of the Composition of the Board and its Impact on Corporate Risk-Taking

Offers empirical proof that a rise in the number of independent directors is linked to a reduction in risky behavior within corporations.

Factors That Affect the Adoption of International Financial Reporting Standards (IFRS) From a Behavioral Perspective

Examines the impact of behavioral factors on the adoption of International Financial Reporting Standards (IFRS) in developing nations, highlighting the significance of neo-institutional theory.

CONCLUSION

The paper emphasizes the increasing significance of incorporating ESG elements into accounting methods and emphasizes the necessity for further research to improve reporting tools and frameworks. The chosen contributions have the objective of furthering the comprehension of sustainable accounting and offering practical perspectives for improving both economic and societal sustainability.

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