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Editors

Sustainability and Social Responsibility of Accountability Reporting Systems

A Global Approach

INTERNATIONAL GROUP ON GOVERNANCE FRAUD
ETHICS AND SOCIAL RESPONSIBILITY

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As a result, we would like to share our motto with readers for more a sustainable world:

> Sustainability should be a lifestyle for human being in business and private life which begins with consumption decreasing

Kıymet Tunca Çalıyurt
Roshima Said

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Introduction

In the past few years, due to instability of world economies have driven organization to reconsider the way they define, evaluate and measure corporate performance. Currently, executives and board members are frequently seeking ways in order to improve the tools or mechanism that bonds its business strategy to performance (Adams 2008). In modernization era, information is easily spread, especially through the Internet and social media network that causes higher demand for an organization to provide more information regarding their activities and future strategies to stakeholders and investors where this information must be transparently disclosed (Abeysekera 2013).

Traditional reporting no longer assures reporting needs to reflect corporate long-term development because activities which cannot be measured must be excluded from the reports. Companies should now extend the existing traditional reporting practices that coupled with the social and environmental impact that was generated by companies itself. Companies should rethink and recognize their way of doing business that benefited the shareholders and specifically other stakeholders. It may not be adequate for stakeholders and investors to measure the economic value that an organization had created or its potential value creating if they only rely on information provided in financial statements (Adams 2008; Hussainey and Al-Najjar 2011). Furthermore, the information provided in financial statements alone may mitigate the investors and stakeholders' ability to predict the sustainability of cash flows and current performance (Hussainey and Al-Najjar 2011; Van Zyl 2013). Therefore, to enhance the transparency and relevance information that disclosed by an organization, it must consistently provide quantitative and qualitative or narrative reports as a supplement and compliment for financial statements.

The issues of the sustainability and corporate social responsibility (CSR) have been of much research attention from academia and put into practice by practitioners for several decades (Deegan 2002; Gherghina et al. 2015; Gray et al. 1995; Gray et al. 2001; Gray 2002; Hackston and Milne 1996; Haniffa and Cooke 2005; Haron et al. 2006; Kanwal et al. 2013; Mohammad Zain and Janggu 2006; Said et al. 2009; Said et al. 2011; Said et al. 2013) . Past studies showed that engaging in

corporate social responsibility leads to better financial performance, access capital, reduced operating costs, enhanced brand image and reputation, increased sales and customer loyalty, and increased productivity and quality. This eventually contributes to the market value of the company and business sustainability (Cochran and Wood 1984; Lin et al. 2009; Orlitzsky et al. 2003; Tsoutsoura 2004; Waddock and Graves 1997).

Corporate Social Responsibility

There are many available definitions of CSR, and they are consistently referring to five dimensions, namely environmental, social, economic, stakeholders, and voluntariness dimensions. Even though there are different phrases, the definitions are mainly congruent, making the lack of one universally accepted definition less problematic than it might seem at first glance (Dahlsrud 2008). Matten and Moon (2008) define CSR as implicit and explicit CSR. Explicit CSR refers to corporate policies to assume responsibility for the interests of the society. Explicit CSR consists of voluntary, self-interest-driven policies, programs, and strategies of corporations addressing issues perceived as being part of their social responsibility by the company and/or its stakeholders. While implicit CSR normally consists of values, norms, and rules which result in (mostly mandatory, but also customary) requirements for corporations to address issues, stakeholders consider a proper obligation upon corporate actors.

Corporate social responsibility (CSR) essentially covers three key areas, namely environmental performance, economic performance, and social performance. Environmental issues include the impact of production processes, products and services for air, land, biodiversity, and human health. Economic performance covers wages and benefits, productivity, job creation, outsourcing expenditures, research and development investments, and investments in training and other forms of human capital. Social performance includes traditional topics such as health and safety, employee satisfaction, and corporate philanthropy, as well as more external topics such as labor and human rights, diversity of the workforce, and supplier relations. CSR therefore focuses beyond financial (economic performance) as the bottom-line figure. It also looks at how the company has performed in terms of its environmental and social performance. Hence, CSR essentially constitutes triple bottom line. The core idea of the CSR concept is that the business sector should play a deeper (noneconomic) role in society than only producing goods and making profits. This includes society and environmentally driven actions, meaning that the business sector is supposed to go beyond its profit-oriented commercial activities and increase the well-being of the community, thereby making the world a better place (Robins 2005). Ness (1992) defines corporate social responsibility (CSR) as a strategic decision undertaken by organization as an obligation to society such as commitment to local communities, providing sponsorship, and giving attention to

environmental issues as well as responsible advertising. Holme and Watts (1999) define corporate social responsibility (CSR) as a duty of each corporate body to protect the society's interests at large where initiatives should be taken by corporations for the welfare of the society as well as perform its activities within the environmental framework although its main motive is to earn profit.

Corporate social responsibility (CSR) reporting is an approach for companies to disclose or published their corporate social responsibility activities. By reporting the activities of a company together with additional disclosure, it may reduce the gaps between the company and its key stakeholders (Said et al. 2009). Globally, several countries and stock exchanges have required listed companies to disclose non-financial information. Some require it to be mandatory and some require it voluntarily. According to ACCA (2011), a country like France, USA, Denmark, Sweden, and European Commission played a vigorous role in implementing requirements for companies to disclose non-financial matters. France established a framework for sustainability disclosure, including matters like environmental management, social and community impacts, workplace practices, and corporate governance where the framework is part of Nouvelles Regulations Economiques. In the USA, new corporate governance disclosure requirements, code of conduct, and environmental information were introduced under the Sarbanes-Oxley Act 2002. In Denmark, Danish Financial Statements Act has been expanded to include sustainability reporting. In Sweden, there are guidelines issued for sustainability reports.

For the European Commission, European Alliance for corporate social responsibility (CSR) has been created in 2006 by the European Commission and European business community to promote corporate social responsibility (CSR) and social and environmental integration. ACCA (2011) further added those four international stock exchanges, including TMX Group; NYSE Euronext; BM & FBOVESPA; and Bourse de Luxembourg that have developed sustainability indices. Johannesburg Stock Exchange claims that disclosure of non-financial information is mandatory by listed companies. Bursa Malaysia also demands for similar requirements together with a description of companies corporate social responsibility (CSR) activities, whereas Singapore Stock Exchange promotes voluntary disclosure for sustainability reporting. Shanghai Stock Exchange claims that companies affecting the environment are mandatory to provide environmental reporting.

The Bursa Malaysia CSR Framework (2006) defined corporate social responsibility as open and transparent business practices that are based on ethical values and respect for the community, employees, the environment, shareholders, and other stakeholders. This CSR framework was designed to deliver sustainable value to society at large. CSR supports triple bottom line reporting which emphasizes the economic, social, and environmental bottom-line wellness. Chambers, Moon, and Sullivan (2003) investigated corporate social responsibility (CSR) reporting in seven countries through Web site analysis of the top 50 companies in Asia. Their study investigated the penetration of CSR reporting within countries and the extent of CSR reporting within companies and the waves of CSR engaged in. The findings

in Chambers, Moon, and Sullivan (2003) showed that there were fewer CSR companies in the seven selected Asian countries as compared to UK and Japan companies. The mean for the seven countries studied show a score of 41%, which is below half the score for the UK (98%) and Japan companies (96%).

Organizational Sustainability

Generally, the conception of sustainability has been connected mainly with the dimension of economic performance or synonym known as "bottom line," such as financial or economic strength and good products or services. Steurer et al. (2005) defined financial performance, long-term competitiveness, and organizational economic or financial impact on stakeholders as the key economic issues of economic sustainability. Choi and Ng (2011) claim that economic sustainability is concerned with economic well-being and standard of living. Coblentz (2002) defines organizational sustainability as an ongoing process rather than a state of perfection. He asserts that sustainability means continuation. To keep an organization sustainable requires a constant effort and unity of purpose focused on one overarching mission.

A sustainable organization needs to be strong institutionally, financially, and morally. A sustainable organization has a mission. A mission statement provides a concise definition of why the organization exists and what it hopes to accomplish. Based on that mission, a sustainable organization has a process in place to develop strategic plans that define how the organization will carry out its mission over a set period of time. Financial sustainability is the ability to project resource needs and to account for resources in a proper way. A sustainable organization needs to know what financial resources it is able to generate through its own income, what it has on hand at any given time, what it needs over the long-, medium-, and short term to carry out its activities, how it will gather the resources it needs from other sources of funding, and what those other sources could be. Simply stated, an organization is ethically sustainable when:

1. The organization's leader has a clear vision of and commitment to the mission and communicates it effectively to all staff.
2. Staff come together around the leader and become committed to it as well.
3. Staffs feel that their commitment to the mission is rewarded by career development opportunities, adequate compensation, and a dynamic work environment that allows each to use his or her capabilities for a greater good.
4. Morale is high as a result. The general feeling is that problems are challenges that staff will overcome with unity of purpose and strength of commitment.
5. Leadership, management, and staff not only act ethically, but are also perceived as doing so.

Corporate Social Responsibility (CSR) and Organization's Sustainability

Past studies show that corporate social responsibility has a relationship between the financial sustainability (long- and short-run corporate financial performance). Many studies have been conducted to measure the statistical association between corporate social responsibility (CSR) and corporate financial performance (CFP), to assist the understanding of the relationship between CSR and CFP.

Previous studies show that corporate social performance has a positive correlation with corporate financial performance (Cochran and Wood 1984; Orlitzsky et al. 2003; Tsoutsoura 2004; Waddock and Graves' 1997). For example, Orlittzsky et al. (2003) carried out a meta-analysis of 52 studies and the study found out that there was a positive relationship between corporate social performance and corporate financial performance. Stanwick and Stanwick (1998) examined the relationship between the corporate social performance of an organization and the size of the organization, the financial performance, and environmental performance. The study measured corporate social performance by empirically testing data from 1987 to 1992 using Fortune's Corporate Reputation Index. The results of their study showed that firm's corporate social performance is indeed impacted by the size of the firm, the level of profitability of the firm, and the amount of pollution emissions released by the firm. McWilliams et al. (2006) state that CSR activities have been posited to include incorporating social characteristics or features into products and manufacturing processes, adopting progressive human resource management practices, achieving higher levels of environmental performance through recycling and pollution abatement, and advancing the goals of community organizations. Tsoutsoura (2004) also addressed a question whether corporate social performance has an effect on financial performance. Using empirical methods, he tested the sign of the relationship between corporate social responsibility and financial performance. His study used extensive data covering a five-year data, 1996–2000. The dataset included most of the S&P 500 firms, and the results revealed that the sign of the relationship is positive. The findings showed that CSR is positively related to better financial performance and the relationship is statistically significant, supporting the view that, therefore, socially responsible corporate performance can be correlated with a series of bottom-line benefits.

Lin et al. (2009) examined Taiwanese firms which include R&D expenditures as one of their business strategies for sustainable development and also charitable expenditures as contributions to CSR. Based on theoretical assertions and empirical evidence in the literature, they found a positive relationship between CSR and financial performance. When the model is properly specified, they found that CSR does not have much positive impact on short-term financial performance, but it does give a significant long-term fiscal advantage. Du et al. (2010) stated that by engaging in corporate social responsibility (CSR) activities, companies not only be able to generate favorable stakeholder attitudes and better support behaviors but also produce the long run, build corporate image, reinforce the stakeholder–

company relationships, and improve stakeholders' advocacy behaviors. This is consistent with the study by one of UK's leading CSR consultancies, where they found that engaging in corporate social responsibility leads to better financial performance, access capital, reduced operating costs, enhanced brand image and reputation, increased sales and customer loyalty, and increased productivity and quality. This eventually contributes to the market value of the company. Effective and accountable management systems help companies shape cultures that support and reward CSR performance at all levels. As part of this effort, many companies are working to increase accountability for CSR performance at the board level. This can lead to changes in who serves on the board, how directors handle social and environmental issues, and how the board manages themselves and fulfills its responsibilities to investors and other stakeholders.

Mishra and Suar (2010) examine whether corporate social responsibility (CSR) toward primary stakeholders influences the financial and the non-financial performance (NFP) of Indian firms. The study used perceptual data on CSR and NFP that were collected from 150 senior-level Indian managers including CEOs through a questionnaire survey. The findings of the study show that stock-listed firms demonstrate more responsible business practices and better financial performance (FP) as compared to the non-stock-listed firms. The study also showed that the controlling confounding effects of stock-listing, ownership, and firm size, a favorable perception of managers toward CSR is found to be associated with an increase in firm's financial performance (FP) and non-financial performance (NFP). The findings of the study suggest that responsible business practices can be profitable and beneficial to the Indian firms.

Arendt and Brettel (2010) investigate the effects of corporate social responsibility (CSR) on corporate identity, image, and firm performance in a multi-industry setting. The study used the preexisting CSR scales, and it is tested using data collected from a sample of 389 European companies. The hypotheses are based on the examination of the moderating effects of CSR using a group comparison method. The study found that contingency models demonstrate that CSR triggers the corporate-image-building process and that its relationship to company success varies significantly based on company size, industry, and marketing budget. They also state that CSR proves to be as much or even more important for smaller companies, not as a mean of cause-related marketing, but as a way of generating a competitive advantage in the market. Nelling and Webb (2009) examined the causal relation between corporate social responsibility (CSR) and financial performance. Consistent with past studies, they found that the two variables appear to be related. Though using a time series fixed effects approach, they found that the relation between CSR and financial performance is much weaker than previously thought. They also discovered little evidence of causality between financial performance and narrower measures of social performance that focus on stakeholder management. The results of their study proposed that strong stock market performance leads to greater firm investment in aspects of CSR devoted to employee relations, but that CSR activities do not affect financial performance.

Table 1 shows that many past studies have proved that engaging in corporate social responsibility activities directly and indirectly leads to financial sustainability (long- and short-run corporate financial performance).

Table 1 Past studies on the relationship between corporate social responsibility activities and financial sustainability (long- and short-run corporate financial performance)

Authors	Findings of the study
Kanwal et al. (2013)	The study result shows that there is a considerable positive relationship between the CSR and financial performance of the firm, and firms spending on CSR not only benefits from continuous long-term sustainable development but also enjoy enhanced FP
Gherghina et al. (2015)	The empirical evidence is consistent with the instrumental stakeholder theory view, since the companies involved in corporate social responsibility undertakings use in a more effective way their resources in order to better satisfy stakeholders' needs. CSR activities can add value to the firm if they are wisely managed and implemented, as well as sufficiently disclosed and reported
McGuire et al. (1988)	Results show that a firm's prior performance, assessed by both stock market returns and accounting-based measures, is more closely related to corporate social responsibility than its subsequent performance. Results also show that measures of risk are more closely associated with social responsibility than previous studies have suggested
Cochran and Wood (1984)	The findings of the study show that average age of corporate assets is found to be highly correlated with social responsibility ranking. After controlling for this factor, there still is some correlation between corporate social responsibility and financial performance
Rajput et al. (2012)	The preliminary results revealed statistically significant relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) as measured by sales revenue and profits of five hundred Indian companies; i.e., it concluded that there is a marked financial benefit for companies that are innovative to invest in CSR
Tsoutsoura (2004)	The results indicate that the sign of the relationship is positive and statistically significant, supporting the view that socially responsible corporate performance can be associated with a series of bottom-line benefits
Hull and Rothenberg (2008)	The results support both innovation and the level of differentiation in the industry as moderators for a positive relationship between corporate social performance and financial performance: Corporate social performance most strongly affects performance in low-innovation firms and in industries with little differentiation
Karagiorgos (2010)	The findings show that there is a positive correlation among stock returns and CSR performance in Greek companies. In operational level, these results aim at persuading managers to implement CSR actions in a greater extent in order to enhance firm market efficiency
Wibowo (2012)	The findings of the study show a positive impact of the social performance to the profitability of the firms, and also, there is positive impact of the profitability of the company to the social performance of the firms. The result of this study indicates that there is a positive interaction between corporate social responsibility disclosure and profitability of firms

Conclusion

CSR supports triple bottom line reporting, GRI (Global Reporting Initiatives), which emphasizes the economic, social, and environmental bottom-line wellness. CSR helps improve financial performance, enhance brand image, and increase the ability to attract and retain the best workplace, contributing to the market value of the company. Effective and accountable management systems help companies shape cultures that support and reward CSR performance at all levels. As part of this effort, many companies are working to increase accountability for CSR performance at the board level. This can lead to changes in who serves on the board, how directors handle social and environmental issues, and how the board manages themselves and fulfills its responsibilities to investors and other stakeholders.

CSR and organizational sustainability signify the way how companies achieve enhanced ethical standards and a balance of economic, environmental, and social imperatives addressing the concerns and expectations of their stakeholders. Undoubtedly, the sustainability of any organization depends on the economic and social conditions in the communities in which it operates. Corporate social responsibility and sustainability as a business management approaches that should provide in the short and long run, better value for shareholders as well as for other stakeholders. Corporate sustainability in practice is about contribution of an organization toward global partnership for sustainable development. It is about contributing toward wide societal value, including support for environmental concerns, health and human rights improvements, and fair globalization. It is also about companies that make long-term performance steadiness as a top precedence in organizational strategy. Eccles et al. (2014) proved that high sustainability companies are more likely to have established processes for stakeholder engagement, to be more long-term oriented, and to exhibit higher measurement and disclosure of non-financial information and significantly outperform their counterparts over the long term, in terms of both the stock market and accounting performance. Sustainability management is essential for long-term corporate development and performance. Research showed that companies embracing sustainable practices reported lower operation costs, improved corporate reputation, developed more green products, and performed much better at risk. Sustainable business entities contribute significantly to a nation's environment, economy, and social well-being at the micro- and macrolevel management.

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