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# Ethical Implications of Sustainability Initiatives in Corporations

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**ABSTRACT**

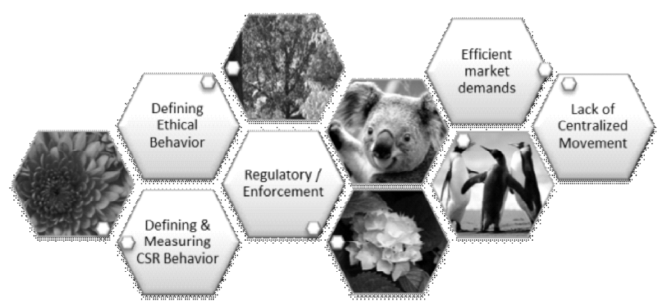
*In response to notable market forces, many companies have implemented sustainability initiatives. Despite the wide use of sustainability initiatives in corporations, there is currently no standardized measurement or reporting framework, authoritative guidance, regulations or rules for sustainability initiatives. Neither is there any regulation for the independent verification of these reports. Hence, corporations can choose to measure and self-report when, how and what sustainability initiatives as well as the results that they want to release to the public. This raises the question regarding ethical issues associated with measuring and reporting sustainability initiatives in corporations. In this paper, we discuss some of the ethical challenges faced when identifying, measuring and reporting sustainable initiatives in corporations.*

***Keywords:*** *Ethics, principal/agent tradeoff, Corporate Social Responsibility (CSR), resource based theory, institutional theory, stakeholder theory, GRI, SASB, SEC.*

## INTRODUCTION

Ethical behavior of corporations can arguably be one of the most beneficial aspirations to society. Current thinking is that the expression of this behavior can be observed through corporate financial reporting of sustainable initiatives. The complexity of this simple statement is clearly felt by governments, organizations and individuals seeking corporate ethical sustainable standards. However, there is currently no consistent standard or requirement for sustainability reporting. This lack of consistent measurement and reporting of sustainable activities raises questions of corporate ethics and can undoubtedly present challenges for managers, accountants, auditors, financial statement users and others. Hence, in this paper, we discuss the ethical issues associated with sustainability in corporations.

To help understand and digest the challenges, we have divided the ethical issues related to sustainability into the following 5 components: 1) Defining Ethical Behavior, 2) Defining and Measuring CSR Behavior, 3) Regulations/Enforcement, 4) Efficient Market Demands, and 5) Lack of Centralized Movement.




Each factor can individually be complex and daunting. The interlocking nature of them creates a tsunami. To this end, in this paper, we discuss various definitions of ethical behavior. Corporate social responsibility (CSR) is also discussed along with the measurement of CSR behavior in corporations. Further, we discuss the ethical and strategic practices of corporations related to sustainability. We also undertake a discussion on the current measurement and reporting practices as well as the regulations and enforcement in the sustainability landscape. We therefore undertake an examination of how public awareness of sustainability and human rights issues has modified corporate behavior. A discussion is undertaken on the need for efficient markets and the lack of centralized management related to the measurement of sustainability initiatives. Finally, we highlight the need for the development of a consistent framework to measure sustainability initiatives in corporations.

## DEFINING ETHICAL BEHAVIOR

Ethical behavior can be viewed from a variety of perspectives. Some of these relate to the concept of right and wrong, fairness and equity, the equity/efficiency trade-off, the doctrine of fairness and the agency/principal trade-off.

"The field of ethics (or moral philosophy) involves systematizing, defining, and recommending concepts of right and wrong behavior" (Fieser). The sub-branch, Normative Ethics, is "concerned with criteria of what is morally right and wrong" (Britannica). Varying cultural norms will influence what is ethical and what is not. The differences across cultures and generations create lack of uniformity. Even within the United States, the hierarchy of needs for the 92 million Millennials has changed from previous generations. So what is morally right and what is wrong? Clearly one can argue that there are universal absolutes, such as the taking of a life. Yet capital punishment exists. Extrapolate these complexities to the behavior of a corporation and they get even more complex creating a gray zone.

For ten years the Ethisphere® Institute has been publishing a list of the "World's Most Ethical Companies" (World's Most Ethical Companies Honorees). As part of the evaluation, "Corporate Citizenship and Responsibility" represents 20% of the scoring methodology. "This category reviews a wide range of a company's performance indicators associated with sustainability, citizenship and social responsibility, specifically including such areas as environmental stewardship, community involvement, corporate philanthropy, workplace impact and well-being and supply chain engagement and oversight. The quality and effectiveness of the initiatives are considered, in addition to stated and measurable goals, accountability and transparency." This is just one of many views defining ethical corporations.

Additionally there are those who argue that motives, not just outcome should be factored into the question.

> "...Ethically better outcomes will be achieved if companies are transparent about why they are engaging in CSR..."(Keeping).

This leaves us with the following questions: 1) Should ethical standards be universal across geopolitical boundaries? 2) Should developing economies be held to the same standards?

### 2.1 Ethics: Right and Wrong

Bertrand Russell (1910) states that the word "right" is ambiguous. He identifies two different moral senses to define right. In one sense, a person does right when he takes the action that will have the best consequences. In the other, he does right when he follows his conscience, independently of the consequences.

In terms of wrong, he distinguishes between objectively and subjectively wrong actions. An action is subjectively wrong, or immoral, when the agent disapproves the action. The agent may act objectively wrong without doing what is subjectively wrong (what his conscience disapproves).

Boatright (1999) states that "the main ethical issues in finance are centered on two theoretical perspectives: fairness or equity and dealing with the equity/efficiency trade-off, and the fiduciary relationship involving agency and principals." In the first, what is right or wrong involves equal information for all participants; and in the second, solving the confrontation of two parties with conflicting interests acting in a self-interest manner.

Furthermore, the Institute of Management Accountants (IMA) provides a Code of Conduct applicable to all managers. This IMA Code presents ethical standards that provide sound, practical advice. Hence, managers not divulging material sustainability information to others violate the IMAs Code of Ethics.

### 2.2 Fairness & Equity/Efficiency Tradeoff

Stakeholders are entitled to be treated fairly and have their rights protected. Although investing is a risky activity that will result in some investors making money and others not, it is necessary to create a fair playing field so that all similar groups have the same information available. This process produces fairness by allowing investors to make informed decisions. Incomplete, false or unbalanced information fed to investors upon which they may base their decisions constitutes unethical fraud.

Corporations have to disclose information to those with whom it enters into transactions, as well as to those whose actions are affected by the company (DeGeorge, 1995). Therefore, other stakeholders like employees, customers and neighbors need to receive sustainability information because it affects them. The lack of informative disclosure to them constitutes unfair dealings since it produces asymmetry of information.

Efficiency produces capital input and output in the markets. However, if stakeholders do not think that institutions are acting fairly, confidence will be lost and efficiency will diminish. Balancing these values can present an ethical dilemma.

### 2.3 Agency/Principal Trade-off

The management function can be examined from the perspective of a principal/agent relationship. In this relationship, managers, and officers of a firm act as agents, while the clients/investors and other stakeholders are the principals. This relationship results in a disparity of the amount of information available to both groups, where the agent generally has more accurate information. Since both parties are trying to maximize their own self-interests, the goals of the principal and the agent are often in conflict with each other. Hence, the duty may not always be exercised and the agent may manipulate the available information to achieve its own best interests. Hence, action to mitigate this conflict of interest, is an ethical standard that is of paramount concern.

## DEFINING & MEASURING CSR BEHAVIOR

The definition provided for CSR by the World Business Council is "the continuing commitment by business to behave ethically and contribute to economic development while improving the life of the workforce, their families and the local community and society at large" (World Business Council for Sustainable Development). Further, the New South Wales (NSW) State Chamber of Commerce defines CSR as "the range of practices that a business might adopt to ensure that it operates in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. CSR is larger than corporate community involvement or strategic corporate philanthropy and extends to a range of management practices and business initiatives" (NSW, 2001).

Many of the same problems associated with defining "Ethical Behavior" apply to defining and measuring CSR behavior. "Appropriate" CSR practices reflect both social values as well as current scientific knowledge. Additionally, the culture of the organization can play a major role. Bazerman and Tenbrunsel (2011) identified five barriers to an ethical organization. These are as follows:

1. Ill–conceived Goals
2. Motivated Blindness
3. Indirect Blindness
4. The Slippery Slope
5. Overvaluing Outcomes

Regardless of the difficulties or motives, the general opinion is that benefits do accrue to ethical companies engaged in CSR behavior.

### 3.1 Sustainability Defined

Sustainability is a subset of CSR. Several definitions currently exist for the term sustainability. Further, the creation of special markets and industries has resulted in vastly conflicting opinions of sustainability measures. The definition articulated by the United Nations (UN) in 1987 of sustainability is "the development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (United Nations, 1987). The UNs broad definition encompasses both environmental issues as well as human rights issues, which are sometimes referred to as 'social' issues. Examples would be the essential needs of the poor, the controversy over child labor and equal rights for women globally.

Other terms are used to describe environmental and human right issues. These are Green, Sustainability, the Triple bottom line (People, Plant and Performance) and the Three Ps (Willard, 2002).

### 3.2 Background on CSR & Sustainability

Issues associated with protection of human rights and protection of the biosphere has been part of society for many decades. It all began in the 1960's by Rachel Carson (harmful effects of DDT documented in her 1962 book, 'Silent Spring') and Ralph Nader. This topic was highlighted by the Civil Rights movement in the 1960's and the first Earth Day in 1970. Four factors focused consumer attention on the ethical behavior of corporate officers. The first was the shift in personal savings from traditional bank accounts to mutual funds and pension accounts. This gave individuals a financial incentive to track company performance. Second, the expansion of the Internet created a mass grassroots communication network facilitating the dissemination of information. Third, a string of environmental catastrophes highlighted managements' disregard for the environment (Three Mile Island accident in 1979; Bhopal Gas Tragedy in India in 1984; Chernobyl Accident in 1986; Exxon Valdez oil spill in 1989 and the British Petroleum oil spill in 2010). Fourth, a pattern of mega financial frauds committed by management and large scale corporate failures (Enron in 2001; WorldCom on 2002; AIG in 2004; and Lehman Brothers in 2008). These showed the need to monitor corporate behavior.

The sustainability topic received a major boost when on March 19, 2013 Pope Francis at Vatican City delivered a discourse where he issued a strong appeal for the protection of the environment and the defense of the weakest members of society. He urged the world to shun, "the omens of destruction and death". He stated that "it means respecting each of God's creatures and respecting the environment in which we live. It means protecting people, showing loving concern for each and every person, especially children, the elderly, those in need, who are often the last we think about" (Pope Francis, 2013). Since then, the Pope has made this sustainability and human rights topic a major part of his platform.

Prior to 2013, many forces and events also brought focus on protection of the environment. For example, this topic received considerable publicity after former Vice President Al Gore received an Academy Award in February 2007 for his documentary film entitled "An Inconvenient Truth" which addressed environmental issues. The film asserts that we are facing a deepening global crisis that requires us to act boldly, quickly and wisely in order to protect the earth (Gore, 2006). The environmental focus grew even greater when Gore subsequently received a Nobel Prize for his efforts to enhance awareness of and the need to protect the environment. These current developments have forced corporations to pay an increasing amount of attention to the enactment of eco-friendly initiatives.

Some corporations have enacted sustainability measures in an attempt to be more environmentally friendly and corporate socially responsible (CSR) while others are simply jumping on the bandwagon. Some have done so for damage control while others have done so purely for strategic purposes. Other firms contend that they are going green primarily to satisfy their shareholders, customers and other stakeholders, while still others are enacting measures in an effort to receive the financial and economic benefits or simply to comply with federal, state and local regulations and avoid the penalties that might emanate from non-compliance.

Notwithstanding the reason for the implementation of sustainability initiatives, it has been well documented that companies that take steps toward sustainability increase their profits substantially. Hence enacting sustainability initiatives can lead to increased shareholder value as well as numerous other benefits to companies (e.g. Jeffers & De Gaetano, 2011; Lin, Jeffers, Romero & De Gaetano, 2015).

Organizations such as the International Institute for Sustainable Development (IISD) have identified the following three categories of benefits from corporate socially responsible behavior. These are benefits to company, benefits to the community and the general public and environmental benefits. Additional components of these benefits are delineated below:

#### *3.2.1. Benefits of CSR to the company*

- Improved financial performance;
- Lower operating costs;
- Enhanced brand image and reputation;
- Increased sales and customer loyalty;
- Greater productivity and quality;
- More ability to attract and retain employees;
- Reduced regulatory oversight;
- Access to capital;
- Workforce diversity;
- Product safety and decreased liability.

#### *3.2.2 Benefits to the community and the general public*

- Charitable contributions;
- Employee volunteer programs;
- Corporate involvement in community education, employment and homelessness programs;
- Product safety and quality.

#### *3.2.3 Environmental benefits*

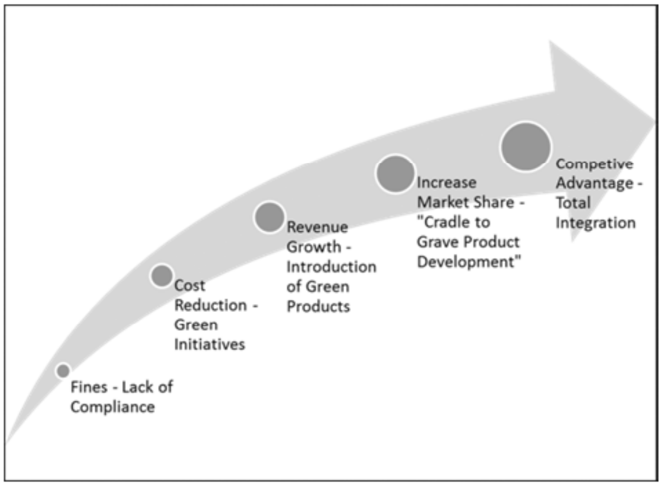
- Greater material recyclability;
- Better product durability and functionality;
- Greater use of renewable resources;
- Integration of environmental management tools into business plans, including life-cycle assessment and costing, environmental management standards, and eco-labelling."

  (IISD - International Institute for Sustainable Development).

### 3.3 Sustainability Business Strategies

Even though enacting sustainability initiatives may initially result in compliance and other capital investments, there are numerous positive effects. Some of them are increased revenue, improved reputation and market share and reduction in costs.

As shown in the diagram below, adding green initiatives to the supply chain can lead to a wider range of integrated supply-chain services, which can ultimately contribute to increased competitiveness and economic performance as well as improved branding. An analysis undertaken by Jeffers &DeGaetano (2013) has found positive relationships exist between green practices and many of the variables used as proxies for company value. For example, positive correlation was observed between green companies and Market Capitalization, Price to Book Ratio, Earnings before




Interest, Taxes, Depreciation and Amortization as well as distribution by industry.

In a larger study of S&P 500 U.S. companies undertaken by Lin, Jeffers, Romero & DeGaetano (2015), positive correlation was also found between sustainability initiatives and the company's bottom line and firm value. In another study that examined the environmental practices of different countries, Romero Lin, Jeffers & Degaetano (2014a) showed how sustainability reporting is adding value to companies. On one hand, they showed that greener companies are more profitable, and the difference is more noticeable in the U.S. than in European companies. On the other hand, their study provided evidence to other stakeholders and regulators of the effect of sustainability policies and regulations on companies' CSR and other sustainability reporting practices and firms' profitability.

Willard (2002) identified seven benefits associated with environmental elements. These benefits are 1) easier hiring of the best talent; 2) higher retention of top talent; 3) increased employee productivity; 4) reduced expenses in manufacturing, reduced expenses at commercial sites; 5) increased revenue/market share; 6) reduced risk/easier financing and 7) increased innovations and R&D. Willard further suggests that additional benefits accrue from strategic design and processes through the connection of designers and material suppliers. This can lead to higher order benefits including lower capital investments and greater brand name and market share.

In addition to the positive benefits noted above, there are many other tangible and intangible implications that accrue to a company from the enactment of sustainable initiatives. These relate to managerial, corporate governance, performance and behavior modifying factors.

The above mentioned results suggest that companies may indeed increase their value by enacting sustainable (green) initiatives. The primary reason for this is that these companies charge a premium price for their products or services and benefit from decreased costs as well as tax savings and other incentives. Hence, their green initiatives generally result in a positive impact on their bottom line. These results suggest that companies may indeed increase their value by enacting sustainable (green) initiatives.

Unquestionably, sustainability initiatives have been used as strategic practices by corporations in order to reduce their tax, capture increased market share, reduce operating costs and secure other financial gain. Nevertheless, a framework to consistently measure these benefits and associated costs is non-existent. Especially the relationship between cost and benefit may not be linear as the cost of investment in sustainability is high in early stages.

### 3.4 Theories Related to Sustainability

Theories that can be utilized in our conceptual discussion on ethical implications of sustainability initiatives in corporations are: 1) Resource-based Theory; 2) Institutional Theory; and 3) Stakeholder Theory.

According to the ***resource-based theory***, effective corporate strategies build rent earning resources and capabilities (Bansal, 2005). Managers engaged in sustainability practices acquire assets and use them efficiently from an economic and environmental perspective to produce earnings, which makes companies with sound CSR policies have higher returns on assets than companies with less efficient policies.

***Institutional theory*** emphasizes the social context within which firms operate. Bansal, 2005 posits that institutional theory is relevant to CSR due to three factors: 1) a firm's commitment to sustainable development is evaluated by different stakeholders affecting perceptions of the firm's acceptability and legitimacy; 2) Further debate on sustainability produces common beliefs and norms; and 3) sustainability issues become institutionalized and regulated.

***Stakeholder theory*** emphasizes that the CSR practices should be evaluated from the benefit of every stakeholder. The pressure from customers has been extensively studied in marketing research. These studies reveal that consumers choose to purchase from companies perceived as having high standards in sustainability even when they have to pay a surplus (Bhattacharya & Sen, 2004; Becker-Olsen, Cudmore & Hill, 2006; Klein & Dawar, 2004; Mohr, Webb & Harris, 2001; Sen & Bhattacharya, 2001). Pressure from other stakeholders, like employees, investors and environmental groups have also been found to affect transparency of sustainability reports (Fernandez, Feijoo, Romero & Ruiz, 2013). Freeman (1984) posits that different factors such as stakeholders, values and societal issues have to be analyzed to establish the foundation enterprise-level strategy. Therefore, not only marginal return from the sustainability practices might be the reason underlying CSR reporting, but also regulation or social pressures.

Romero, *et al.* (2014a) found that the development of sustainability initiatives, among U.S. Corporations is grounded on the resource-based explanation and are increasing their profitability while adopting sustainability practices. Further, the U.S. has lower levels of commitment to sustainability regulation (i.e. management and disclosure). On the other hand, European companies are developing their sustainability initiatives based on institutional and stakeholder theories and are therefore not experiencing a significantly positive correspondence between sustainability initiatives and profitability. Their results suggest that the institutional theories and stakeholder theories are better than the resource-based explanation in defining the commitment to sustainability practices in European companies since they have higher levels of regulation.

### 3.5 Managers' Perception Regarding Sustainability Initiatives

A study of British Companies conducted by Kohli Ventures reported by Torrance, 2016, found that only 28% of British companies believe that CSR is a central driver of modern business success, and 38% said while it is important to consider, it is not vital. There are some who contend that businesses are more concerned about the impact on their brand than actually doing good (Torrance, 2016). Torrance further notes that in a study conducted by YouGov, business leaders who participated in CSR schemes were asked what motivated them to do so. He noted that 58% said it was their 'duty,' while 75% said 'it helps their branding' and 30% said that they measures the value of their CSR program based on its ability to raise the company's profile. Torrance further contends that CSR is treated as an add-on, rather than as a way of doing business and that CSR needs to be more than volunteering or giving cash.

Undoubtedly, business principles should include acting with a social and environmental conscience. Hence it is apparent that enacting environmental measures is not only the right thing to do, but it's also good business practice. To this end, many corporations have jumped on the sustainability bandwagon for a variety of reasons. Many corporations have modified their behavior and have enacted sustainability initiatives as part of their business strategy.

### 3.6 Modifications of Corporate Behavior

A company's actions with regard to sustainable initiatives depends upon a number of factors including corporate awareness, corporate culture, incentives, resources, willingness and ability to execute change (Gupta & Kumar, 2013; Reilly & Weirup, 2012; Robinson & Boulle, 2012; Serpell, Kort & Vera, 2013). Further, enactment of sustainable initiatives also depends on a company's ability to understand the results of its actions or inaction. Failure to enact sustainable measures (inaction) may result in fines, penalties and other negative consequences while enacting sustainable initiatives (action) may be costly but result in positive benefits (Hsu, Tan, Zailani, & Jayaraman, 2013). Klein and Dawar (2004) found that consumers place firms in a negative position when there is evidence of poor CSR, but they are willing to give the benefit of the doubt when they know little about the firm. These results highlight the negative effect of inaction when consumers expect an active green behavior from a company.

Unquestionably, the sustainability movement, public awareness of sustainability and human rights issues have led to modifications in corporate behavior and have forced corporations to enact sustainability initiatives. However, although corporations are being encouraged or forced to comply with relevant environmental regulations, in some cases, companies would rather be fined than incur the costs associated with compliance. Nevertheless, the corresponding negative effects on the company's bottom line, reputation and potential future earnings related to compliance or non-compliance could be significant.

In recent years awareness of the need for sustainable engagement and reporting has increased. Central to this change is the board of directors of the company and its relationship to the other primary participants, such as employees, customers, suppliers and creditors. This corporate governance framework also depends to a large extent on the legal, regulatory, institutional and ethical environment of the community in which the company operates.

It is clear that the increased public awareness of sustainability initiatives, as well as social, economic, and government forces, have driven corporations to change their product designs, re-brand their image and institute other changes. This awareness has driven corporations to actively manage Corporate Social Responsibility (CSR) for both financial and ethical reasons, which has resulted in sustainability initiatives becoming a vital factor in the strategic decisions of corporations. As a result, many of the changes made by corporations under the guise of achieving higher ethical standards may in reality be undertaken primarily for financial gain.

## REGULATION & ENFORCEMENT FACTORS

### 4.1 Reporting of Sustainability Initiatives and Results

The changed behavior towards sustainability has impacted financial results as well as the reporting and strategic practices of corporations. Further, research has shown that sustainability practices are important factors in corporations and users of financial statements are demanding transparent reporting of the initiatives as well as their results.

### 4.2 Self-Reporting

Market forces have clearly created a demand for sustainability reports. In response to these demands, almost all major corporations publish Corporate Social Responsibility (CSR) reports. However, most of these are standalone reports and are independent of SEC filings. The lack of tools to gather and measure relevant information, and the lack of standardization and guidance, is presenting a significant challenge for practitioners and users of financial statements.

Ultimately, the current underpinning for CSR disclosure is based upon a Self-Reporting model. Companies are permitted to self-report on their sustainability initiatives and these reports are not required to be audited. Hence, corporations will tend to spin the measurements as they see fit and may only release information that shows them in a favorable light. The lack of uniformity in frequency, metrics disclosed and methodology has allowed some companies to present a rosy self-portrait. This unethical behavior is termed as “Greenwashing,” and has potentially hindered companies truly wishing to engage in ethical CSR behavior. The measuring of CSR behavior (Cost-Benefit) requires a universal reporting framework & requirements (e.g. frequency, disclosure requirements etc.). Independent assurance would also be needed to provide a level of reliability. In addition, the perceived needs of users with respect to materiality must be considered by auditors. However, literature has shown that auditors feel deficient in the area of sustainability measurement and hunger for more guidance, training and assistance from standard setters and other professionals.

### 4.3 Setting Sustainability Standards

In a discussion regarding ‘Who Should be in Charge” of setting sustainability reporting standards, Lin, Romero, Jeffers & DeGaetano (2015) states that the lack of standards permits corporations to cherry pick “the nature”, “the extent” and “how” their information regarding sustainability is communicated to stakeholders. They suggest that there is a pressing need for a framework to identify and measure the associated environmental variables, which will enhance planning, control and decision making as well as the assessment of the financial impact of the environmental variables on the corporation’s bottom line. They also suggest that such framework should not only include metrics used in traditional cost accounting literature but also include metrics and methods for measuring and reporting the impacts, financial and non-financial of sustainable initiatives.

Important factors in the Regulations/Enforcement debate are 1) The speed and effectiveness of the legislative process; 2) The speed and effectiveness of the litigation process; 3) Enforcement across geopolitical boundaries and 4) The corporate structure. The corporation’s Agent-Principal Relationship has played an important role in the behavior of corporations, motivating managers to act in the shareholder’s best interest. Given the ambiguity of what is or is not ethical behavior, managers have typically looked to what is legal versus illegal as the debarkation point. The fiduciary responsibility of Fund Managers is also important. According to the Investment Company Institute 2016 Investment Company Fact Book, total worldwide assets invested in regulated open-end funds were $37.2 trillion at 2015 (Investment Company Institute). Several structures have emerged to address the Agent-Principal issue. Of importance is the “Benefit Corporation.” This type of corporate structure has emerged to address the potential conflict of interest created by the corporation agent-principal relationship. As of May 2016, 31 states have passed legislation permitting Benefit Corporations and 7 are working on legislation (B Lab).

It is clear that the increased need for sustainability initiatives by companies has in turn increased the demand for better identification, measurement and reporting of the revenues, costs and the associated variables. In a study that examined the variables required for the development of a framework to measure the financial implications of green accounting in U.S. corporations, Jeffers (2008) noted that the measurement of green accounting should include additional economic, environmental, operating, regulatory and community costs as well as the reporting of these initiatives in the financial statements of companies. She noted that "going green" can generate additional benefits and revenues, cost savings, tax credits and other tax savings and incentives, regulatory costs avoided and grants/subsidies received. These associated costs and benefits of the relevant measures must then be netted against each other to determine the impact on the financial statements of corporations. Furthermore, it is imperative that all of the variables are captured in the green cost accounting model so as to accurately measure the costs and benefits of the environmental initiatives.

Reliable measurement of the associated costs and benefits of these initiatives are also of great concern. Despite the efforts by practitioners, academics, and other interested groups, there is still no established framework for identification, measurement and reporting of sustainability initiatives in corporations. However, several established accounting and consulting firms currently provide studies, surveys and other support related to sustainability. Bloomberg database publishes an Environmental Social Governance (ESG) rating for companies. The AICPA has set up a reporting and assurance webpage on sustainability. Additionally, research regarding environmental reporting is currently being undertaken by various CPA state societies. Furthermore, special watchdog groups currently exist that monitor and report corporate and industry behavior related to sustainability initiatives in corporations. Examples include the Global Reporting Initiative (GRI), which has a resources library and a disclosure database (GRI, 2013); the International Organization for Standardization (ISO) and the International Integrated Reporting Committee (IIRC) which is working on the development of a comprehensive set of reporting guidelines to promote consistent standards. Despite all of these initiatives, without proper mechanisms and regulation, these standards will not be effective.

Of particular significance in the development of a framework for the measurement and reporting of sustainability is the U.S. Sustainability Accounting Standards Board (SASB). The SASB is a private non-profit organization that states that its "mission is to develop and disseminate sustainability accounting standards that help public corporations disclose material, decision-useful information to investors." Despite the strides made by the SASB, recent events have created a rift between the SASB and the SEC. In a statement made on March 27, 2014 by Daniel Gallagher regarding the SASB's stated mission, the then Commissioner of the Securities & Exchange Commission (SEC) stated that "it is the Commission's responsibility to set the parameters of required disclosure standards" (SEC.gov).

In response to the Commissioner's Statement, Maria J. Murphy, Editor-in-Chief of the CPA Journal (June 2014), agreed with Romero *et al.* (March 2014b) and Jeffers et al. (March 2014) "that because sustainability initiatives are an important factor in corporate decision making and users of financial statements are demanding more transparent reporting, there should be more standardized reporting and consistent information presented, with some regulatory oversight. The usefulness of these disclosures may be diminished, as there are no authoritative or uniform requirements for reporting these initiatives today. They suggested the possibility of collaboration between the SEC and the private sector as a possible solution, which I agree with."

Notwithstanding the rift between the SASB and the SEC, it is clear that there exists a mounting desire for reliable public sustainable information. However, to date, the SEC's guidance concerning disclosure of sustainable and social issues has been limited to resource extraction issuers (oil, natural gas and minerals). Expanding the requirements to other industries has stalled so far. Hence, there is still no uniformity and consistency of identification and measurement of the incremental revenue and costs of sustainability initiatives.

Failure of companies to properly identify, measure, and report sustainability initiatives present an ethical dilemma for managers. The lack of a consistent sustainability identification, measurement and reporting framework also present a challenge to accountants and auditors particularly in the current litigious environment. Further, guidance is non-existent or vague. The gap in authoritative guidance could result in allegations of material omissions or misstatements in the financial statements of corporations.

It is therefore imperative that a reliable conceptual framework be enacted to assess the financial impact of the environmental variables on the corporations' bottom line.

## EFFICIENT MARKET DEMANDS

Unquestionably, companies can increase their value by enacting sustainable initiatives. Hence, business principles should include acting with social and environmental conscience. However, the question arises of whether CSR is good ethics or good business. This issue has now become a global question with demands for answers from around the globe. The reasons for this demand are as follows:

1. Globalization of capital markets;
2. Use of the World Wide Web to disseminate information about a company's actions;

3. Growth of consumer awareness resulting in increased sales and/or lower cost of capital;
4. Increase in funds managed by institutions in effect creating a unified consumer response impacting a company's value and cost of capital; and
5. Focus on supply-chain management

Market forces continue to be a driving force in the business arena and stakeholders have been demanding information concerning social and environmental issues. As governments, environmental groups, citizens and stakeholders become more aware of the need to protect the biosphere and the underserved, the demand for better identification, measurement and reporting of information related to sustainability initiatives in corporations will increase.

Lin, Romero, Jeffers, and DeGaetano (2015) note that one of the fundamental elements required for an efficient capital market is accurate public information. Therefore uniformity and consistency of identification and measurement of the incremental revenue and costs of sustainability initiatives will make the reporting of financial statement of companies more transparent and comparable, and will lead to more informed decisions by financial statement users. A study by Khan, Serafeim & Yoon of Harvard Business School indicates that "an increasing number of investors integrate sustainability performance data in their capital allocation decisions" (Khan *et al.*, 2015).

## LACK OF A CENTRALIZED MOVEMENT

Although the market demand for sustainable reporting has been strong, regulators and authoritative bodies have been cautious and guidance has been sparse. The SEC's guidance concerning the disclosure of sustainable and social issues has been limited (Lin *et al.* 2015). Further, there is a splintered approach to solving the sustainable reporting problem. Governments, non-governmental organizations as well as special watchdog international and local groups have emerged to monitor and report corporate sustainability behavior. Nevertheless, there are no appropriate metrics or benchmarks and no integrated system to measure and report the progress of the efforts. Further, from the stakeholder perspective, there is the need for assessments and audits of sustainability reports.

As of May 2016, Wikipedia lists the existence of hundreds of environmental organizations. This does not include non-environmental organizations and small local groups. Furthermore, as of May 2016 the International Business Ethics Institute listed over 40 "Business Ethics Organizations"; including for-profit corporations, educational institutions, and special purpose not-for-profits (International Business Ethics Institute). This lack of a centralized movement for measurement, reporting, guidance and oversight on sustainability presents a pressing need for the development of a framework and authoritative guidance in the area of sustainability.

## FUTURE IMPLICATIONS

The world population is increasing rapidly and along with the increase comes demand for products and services. As governments, environmental interest groups, stakeholders and citizens become more aware of the protection of the planet, the requirement for sustainable products and services will increase. This will increase the sustainable environmental initiatives by companies which will increase the demand for better identification, measurement and reporting of the revenues and costs associated to this new environment. Managers of companies as well as their stakeholders will need to evaluate the environmental, humanitarian and other impact of sustainable initiatives.

Developing an appropriate comprehensive framework for the identification, measurement and reporting as well as the regulation and enforcement of sustainability initiatives in corporations is a global issue and will require cooperation of governments, non-government organizations, corporations, professional organizations, interest groups and the general public. Furthermore, uniformity and consistency of identification and measurement of the incremental revenue and costs of the sustainable initiatives will make the reporting of financial statements of companies more transparent and comparable and lead to more informed decisions. Failure by companies to properly measure and report the green initiatives could result in material omissions or errors in the financial statements of corporations.

## CONCLUSION

It is clear that there are numerous benefits that could accrue to a corporation and its stakeholders from sustainability initiatives. However, there is no standardized reporting framework, regulations or rules for sustainability initiatives. Hence, corporations can choose whether or not to self-report, what and how to measure sustainability initiatives as well as the results that they want to report. Further, there are no required audits or independent verification on the sustainability reports. This means that the relevance and reliability of the reporting of sustainability initiatives in corporations depends on the ethical values of the managers who identify the sustainability variables, measure and report the results.

Unquestionably, the lack of consistent measurement and reporting of sustainable activities raise questions of corporate ethics and can undoubtedly present challenges for managers, accountants and auditors. Hence, it is evident that there is a pressing need for a standardized and regulated framework for the reporting of sustainable initiatives in corporations.

This paper can serve as a starting point in highlighting the unethical dilemma associated with self-reporting and the urgent need for a consistent framework for identification, measuring and reporting sustainability initiatives in corporations. It can undoubtedly lead to more informed and improved decision making internally by managers, corporate executives and compliance officers, as well as externally by government standard setters, policy makers, regulators, environmental groups, consumers, investors, creditors, the general public and a host of other interested parties regarding the enactment of sustainable initiatives in corporations as they seek to make more informed decisions regarding sustainable initiatives.

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