Challenges in Managing Sustainable Business

Susanne Arvidsson
Editor

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Reporting, Taxation, Ethics and Governance

palgrave
macmillan

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ISBN 978-3-319-93265-1 ISBN 978-3-319-93266-8 (eBook)
https://doi.org/10.1007/978-3-319-93266-8

Library of Congress Control Number: 2018950056

This Palgrave Macmillan imprint is published by the registered company Springer Nature Switzerland AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Preface: A Background to the Challenges in Managing Sustainable Business

Introduction

Today, it is more than 30 years since the Brundtland Report entitled *Our Common Future* (UNWCED, 1987) was published with the objective of drawing attention to the global need for sustainable development. Many meritorious initiatives have since resulted in a faster adaption towards sustainable development—both at national and international level. Sustainability is now a topic that is high up on the agendas in politics, business society and academia. Agenda 2030 and UNs Sustainable Development Goals (SDGs) are putting an emphasis on the vital urgency to transform our countries, companies and lives into more sustainable. As we speak, our businesses are undergoing a transformation towards more sustainable organizations. Vigorous practice development is taking place in a number of areas. This book, *Challenges in Managing Sustainable Business: Reporting, Taxation, Ethics and Governance*, explores a variety of challenges faced by businesses when becoming more sustainable organizations. These challenges are linked to economic development and have implications for e.g. reporting, assurance, finance, corruption and taxation. Showcasing an interdisciplinary approach, the chapters explore topics such as sustainability reporting and assurance, anti-corruption, business ethics, corporate responsibility, cognitive frames, sustainable finance, ethic taxation and tax governance. The book is divided into five different parts: *Sustainability Reporting*, *Sustainability Assurance*, *Sustainable Finance*, *Anti-corruption and Business Ethics* and *Ethical Taxation & Tax Transparency*. The next section provides the structure of the book, where the five parts are introduced along with a presentation of the themes at focus in the chapters.

The Structure of the Book

Part I of the book, *Sustainability Reporting* acknowledges the fierce practice developing of sustainability reporting. Here, the focus is on what challenges this means both to our companies and to the various stakeholders who try to understand and assess sustainability information and corporate performance on the sustainability arenas. The part includes five chapters that all set out to enhance our understanding of how the transformation towards more sustainable businesses has changed the landscape for corporate disclosure and communication. With this transformation, a new type of information is entered into the corporate reports, i.e. sustainability information.

In the first chapter, Arvidsson takes us on "*An Exposé of the Challenging Practice Development of Sustainability Reporting: From the First Wave to the EU Directive (2014/95/EU)*". The chapter gives a theoretical background to why companies (should) engage in sustainability reporting. Three arguments for providing sustainability reporting are at focus (i) gaining, maintaining and/or repairing legitimacy, (ii) improving stakeholder relations and (iii) decreasing information asymmetry. The chapter also acknowledges that this practice has been criticized throughout the years, not the least from the actors on the financial markets. It highlights different types of critique (PR-invention, green-, blue- or even SDG-washing activity, poor informational quality) and discusses how a new set of voluntary-sustainability standards have been developed to help companies implement, manage and report more efficiently on their sustainability activities. The chapter ends with highlighting the EU directive (2014/95/EU), which from financial year 2017 mandates the largest EU companies to provide sustainability information in their corporate reports.

In the second chapter, Torre et al. enhance our knowledge on "*Integrated Reporting and Integrating Thinking: Practical Challenges*". Integrated Reporting (<IR>) is currently a hot topic for academic research because of the practical challenges businesses encounter implementing it. The chapter focuses on the challenges of integrated thinking and examines the extant academic literature to offer contributions for future research based on <IR> practice. They authors argue that integrated thinking suffers from significant conceptual, theoretical and practical challenges, which obstruct the claimed benefits deriving from adopting <IR>. Therefore, this chapter contributes to rethinking the paradigm of integrated thinking, and it is claimed that managers need to abandon the compliance-driven logic underpinning external reporting to foster integrated thinking and unlock its potential in practice.

The third chapter is titled "*Human Capital Disclosures in Swedish State-Owned Enterprises—A Comparison of Integrated Reporting Versus Traditional Reporting*". Here, Rimmel provides us with insights on how Swedish state-owned enterprises (SOEs) make disclosures about human capital in their corporate reports. Using a GRI framework, the chapter sets out to identify patterns in disclosure and provide us with illustrating examples that compare integrated reporting with traditional corporate reporting. The findings show that SOEs applying integrated reporting tend to disclose more about employees than enterprises that follow traditional corporate reporting.

In the fourth chapter, Arvidsson and Johansson address "*Sense-Making and Sense-Giving: Reaching Through the Smokescreen of Sustainability Disclosure in the Stock Market*". Here, we learn more about how the increased focus on sustainability information in corporate reports has affected financial analysts in their important work of interpreting, assessing and communicating value-added information to their clients, i.e. the investors. Their role as information intermediaries is vital for the efficient allocation of resources on the stock market. The challenges they face relate to the ambitious nature of sustainability information and its difference from traditional financial information. How do analysts reach through this smokescreen? How do analysts make sense of sustainability information, and how do they give sense to this information when they provide investment advices to their clients? These challenges are addressed in the chapter from a cognitive-frame perspective.

Part I of the book ends with Holland's chapter on "*Changing Financial Firms Relative to ESG Issues*". This chapter investigates changes in financial firms relative to environmental, social and governance issues (ESG). An embryonic "behavioural theory of the financial firm" (BTFF) is outlined to provide a conceptual framework to analyse ESG.-change issues in financial firms. This framework is used to explore how financial firms and others can understand processes of: learning, strategic design of the firm, mobilization of resources and reporting relative to growing ESG concerns. The chapter illustrates how "top teams", advisory policy bodies, legislators and regulators can use the BTFF to inform their actions and change proposals. This can support an integrated view of the financial firm and encourage a coherent pursuit of financial *and* ESG aims throughout the financial firm.

Part II of the book, *Sustainability Assurance*, includes two chapters, which enhance our understanding of the challenges sustainability information has imposed on the assurance practices. The increased interest in developing efficient assuring of sustainability information is triggered by the critique against the poor credibility and comparability of sustainability information.

In the first chapter, Faroq and de Villiers address "*Sustainability Assurance: Who Are the Assurance Providers and What Do They Do?*". Since sustainability is a voluntary undertaking in most countries, there is no restriction on who can provide sustainability assurance services or the approach to assurance. This chapter explores the different types of sustainability assurance providers operating in the market—accounting sustainability assurance providers and non-accounting sustainability assurance providers. The similarities and differences in approach to sustainability assurance are discussed. This discussion highlights the challenges faced by assurance providers and assurance seekers (i.e. sustainability reporters) in the market for this new form of assurance.

In the next chapter, Carrington provides us with a "*A Critical Perspective on Sustainability Assurance*". What does assurance of sustainability reports mean? To answer this question, the chapter treats assurance as a word with a regulatory and etymological history, which prescribes a specific and particular interpretation of the term assurance. It is observed that sustainability assurance inherits a specific theory with a particular form of evaluating and making authoritative statements on sustainability practice from (financial) auditing. It draws on agency theory, and the form of evaluation is the indirect evaluation of statements of compliance with standards instead of a direct assessment of the company's sustainability performance. This is argued to be problematic. Even if assurance may add credibility to sustainability reporting, it does not challenge the visions and perspectives adopted by the company. This was a problem in the first place, as suggested by the Brundtland report.

In Part III of the book, *Sustainable Finance* is at focus. The part includes four chapters that highlight different challenges related to the fierce process of making finance more sustainable. Several intriguing questions are addressed in the chapters: What can we learn from the Nordic sustainable and responsible (SRI) strategy? How can accounting frameworks be improved? How can sustainability risks be recognized and integrated in credit decisions and risk-management practices? What do we mean with a sustainable infrastructure and what role does green bonds play?

In the first chapter, Hassel and Semenova focus on "*Engagement Dialogue as a Nordic Sustainable and Responsible Investment (SRI) Strategy*". This chapter conducts an in-depth analysis of engagement dialogue between Nordic institutional investors and MSCI World companies regarding environmental, social and corruption risks. The main characteristics of the Nordic model of engagement dialogue are an incident-based approach, norm-based compliance, a small number of engagement cases and long-term emphasis on risk reduction as opposed to short-term financial gains. The chapter notes that successful forms of engagement dialogue target global companies with higher levels of pre-engagement environmental, social and governance (ESG) performance, ESG transparency and operating performance than a matched sample. Their performance remains superior to the matched sample in the post-engagement period. The chapter consequently extends previous literature on SRI strategies in the Anglo-Saxon model of activism based on shareholder resolutions whereby companies are targeted owing to corporate governance risks and low financial performance.

The second chapter is titled "*Sustainable Business Practices—An Environmental Economics Perspective*". Lundgren et al. discuss corporate social responsibility (CSR) from an environmental economics perspective. The discussion is based on existing research and aims to illuminate some concepts and create an explanatory framework for understanding the corporate behaviour referred to as CSR and especially the environmental responsibility dimension. It is argued that a theory about CSR would have to include trade-offs between personal taste and values, social norms and market imperfections. The challenge with progressing academic research about CSR would be improving environmental accounting frameworks, both at the national level and at firm level. The system of double bookkeeping needs to be accompanied by environmental, social and material flows accounts in a more detailed manner than what we see today. If not, any proposed theory about CSR would run the risk of being moot as it would be impossible to put it to the test.

In the third chapter, with the controversial title "*Will the Banker Become a Climate Activist?*", Henningson argues that banks currently lack a proper understanding and incentives to manage climate-related financial risks and translate them into credit decisions. The chapter includes a discussion on how this scene gradually could change within the banking industry, mainly driven by regulators and rating agencies and potentially sudden market revaluations of climate-related risks. It is illustrated how banks, by using well-established methods further developed by rating agencies could integrate climate factors into the credit decisions and become concerned consumers of corporate climate information. The chapter ends with a discussion on the challenges the banking sector face related to the recognition and integration of climate-related risks in their risk-management practices.

The fourth and final chapter in the part Sustainable Finance is authored by Hebb and is titled "*Investing in Sustainable Infrastructure*". In this chapter, she enhances our knowledge of how sustainable business is underpinned by sustainable and resilient infrastructure. This is defined as infrastructure that integrates environmental, social and governance (ESG) aspects into a project's planning, building and operating while ensuring resilience in the face of climate change or shocks. Currently, trillions of dollars of infrastructure investment are needed to meet our needs globally. This chapter explores the shift towards greater consideration of ESG in infrastructure investment. It looks at the drivers of these phenomena and some of its implications. However, integrating ESG in infrastructure investment is not without its challenges. Given that these large institutional investors have a fiduciary duty to serve their beneficiaries in both the short and long term, incorporating sustainability in infrastructure investment raises tensions between the need for profitable financial returns and the need to contribute to a healthy and sustainable planet. These challenges are explored in greater depth at the close of the chapter.

Part IV of the book *Anti-corruption and Business Ethics* includes three chapters. The globalization has many advantages but it also gives rise to various challenges. One such challenge is to fight corruption. Today many companies invest substantial resources in the development of efficient systems for preventing, identifying and managing corruption-related incidents. In this part, the three chapters in different ways enhance our understanding not only of the complexity underlying the fighting of anti-corruption but also of its relationship with business ethics and responsibility.

The first chapter has the somewhat provocative title "*Anti-corruption: Who Cares*". Here, Sampson problematizes engagement in fighting corruption, in terms of why businesses, governments, international organizations and NGOs choose to make anti-corruption a priority and how they go about fighting corruption, including their degree of genuine engagement. Two major anti-corruptionist discourses are described: the one emphasizes the progress in fighting corruption through laws, conventions, campaigns and transparency; and the other discourse is a more pessimistic scenario emphasizing the continued persistence of corruption, as revealed by the Panama and Paradise papers and almost daily corruption scandals at the highest corporate and government levels; this second, cynical discourse highlights the failure of the anti-corruption industry to actually reduce corruption. Problematizing who cares about anti-corruption and why they care can not only help put anti-corruption in its proper sociopolitical context. It can also lead the way towards more effective anti-corruption programmes.

The second chapter is titled "*Rationalizing Deviances—Avoiding Responsibility*". In this chapter, Brytting takes his departure in the fact that only one in five instances of fraud is detected by internal and external audits and IT controls. Instances of corruption are most probably even less visible. How come, and what to do about it? This chapter treats deviances as a social and psychological problem. Rationalizations both from the fraudsters' and the bystanders' side will be discussed as important factors that obstructs the prevention of deviances. These rationalizations are interpreted as a kind of perverted modern virtues, something that might explain their persuasive power.

In the last chapter of this part, "*Organizational Anti-corruption: De-normalization Through Anxiety, Superego, Courage and Justice*", Lennerfors argues *that* major challenge for fighting corruption is our narrow conceptions about corruption and the lack of alternative, creative theorizations about both corruption and anti-corruption. The chapter responds to this challenge by discussing organizational corruption and anti-corruption in an alternative way. It reviews three different definitions of corruption and argues that corruption should be seen as the degeneration of a legitimate value. With this view of corruption, this chapter develops an anti-corruption framework by inverting Ashforth and Anand's (2003) work on the normalization of corruption in organizations. In the latter part, the chapter argues that one could relate to anti-corruption measures in any of four ways: anxiety, superego, courage and justice. It suggests that a balanced mix of these four subject positions is useful for fighting corruption.

The final part of the book is *Ethical Taxation and Tax Transparency*. This part includes two chapters, which put a focus on a new sustainability theme: tax and taxation. Triggered by the Panama and Paradise papers, the sustainability debate has started to address tax and taxation. The relationship between tax, taxation and sustainability is not an easy one. How do we define and promote responsible tax policies and ethical taxation? How can tax transparency assist in this process? These are some of the questions that are raised and discussed in this part.

In the first chapter, Gribnau and Jallai enhance our understanding about the complex relationship between "*Sustainable Tax Governance and Transparency*". The chapter will deal with the calls for increased tax transparency. Public transparency with regard to corporate tax is in many countries a rather new phenomenon. It is argued that corporate tax transparency is a key to good tax governance. Yet, it also entails various challenges. A first step is the question as to relationship between tax and sustainability; sustainable tax governance will first be dealt from a governmental perspective which requires the state to pay due attention to the quality of tax legislation. Following, it will be discussed how to relate multinational tax-planning practices to sustainability. It will be analysed whether paying taxes could be seen as a company's obligation towards society. Here, CSR is used as a proxy for sustainability. A notion of good tax governance as a response to demand of sustainable and responsible tax planning will be proposed. Furthermore, this chapter relates such good tax governance to transparency, which is considered as a necessary if challenging prerequisite for a sustainable tax planning.

The second chapter is titled "*Perspectives on Corporate Taxation from a Sustainable Business Perspective*". In this chapter, Persson Österman emphasizes the need for a legal rule-based taxation. The most important lesson social-science research provides should be that the willingness to pay taxes is a function of complicated processes and that there is no single explanation as to why an individual or a corporation chooses to pay their taxes or engage or not engage in tax planning or tax avoidance. Research also indicates that the social norm is not very clear in terms of the view on tax avoidance. The best way of securing a sustainable corporate taxation is international cooperation on the legislative level and the development of legal concepts against tax avoidance (General Anti Avoidance Rules).

Acknowledgements

I would like to express my deepest gratitude to the contributing authors not only for the time, energy and skills you have put into the making of this book but also for all the constructive, enthusiastic and positive discussions that we have had throughout the process. I hope we will get a chance to continue our discussions in future projects! I also want to thank the editors Madeleine Holder and Gabriel Everington at Palgrave Macmillan for their always so kind and prompt support. Last but not least, my daughter Charlotte and son Carl owe my special thanks for their unconditional love. Just thinking of you makes me smile! I promise that the next book will be one we can read when I put you to bed.

Lund, Sweden
May 2018

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Contents

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See the following web page for details of publications http://eprints.gla.ac.uk/view/author/6061.html.

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Jeaneth. https://www.ltu.se/staff/j/jeaneth-1.10340?l=en.

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List of Figures

List of Tables