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Graham Gal · Orhan Akişik
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Editors

# Sustainability and Social Responsibility: Regulation and Reporting

Springer

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ISSN 2509-7873 ISSN 2509-7881 (electronic)
Accounting, Finance, Sustainability, Governance & Fraud: Theory and Application
ISBN 978-981-10-4501-1 ISBN 978-981-10-4502-8 (eBook)
DOI 10.1007/978-981-10-4502-8

Library of Congress Control Number: 2017942971



Printed on acid-free paper

This Springer imprint is published by Springer Nature
The registered company is Springer Nature Singapore Pte Ltd.
The registered company address is: 152 Beach Road, #21-01/04 Gateway East, Singapore 189721, Singapore

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## About the Editors

**Dr. Graham Gal** is an Associate Professor of business administration at the Isenberg School of Management in the Department of Accounting. Dr. Gal member of the American Accounting Association's council and serves on the University's IT Curriculum and Policy committee. Currently, he is on the editorial board for the Journal of Information Systems and the International Journal of Auditing Technology. He served as editor for a special issue on continuous auditing and continuous reporting for the *Managerial Auditing Journal*. Previously, he served as the associate editor for design science for the Journal of Emerging Technologies. His research interests include business ontologies, specification of internal controls, continuous monitoring, continuous reporting, organizational security policies, corporate social responsibility impact on financial performance, and controls for sustainability reporting. Dr. Gal has recently been a keynote speaker at the International Conference on Governance, Fraud, Ethics, and Social Responsibility and at MODAV. He has presented his work as a visiting scholar at Chuo University in Tokyo, the University of Sao Paulo, and as a panelist on cybersecurity at the University of Waterloo's conference on information assurance. His work has been published in a number of journals including *Journal of Emerging Technologies in Accounting*, *Decision Sciences, Expert Systems Review, Expert Systems, Journal of Information Systems, The Information Systems Control Journal, Advances in Accounting Information Systems, The International Journal of Accounting Information Systems, the International Journal of Accounting and Information Management, Sustainability Accounting, Management and Policy Journal, and the Journal of Management Control.*

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**William Wooldridge** is Managing Director of the Berthiaume Center for Entrepreneurship and Professor of management in the Isenberg School of Management at the University of Massachusetts, Amherst. Prof. Wooldridge received his Ph.D. in management from the Leeds

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As founding director of the Berthiaume Center for Entrepreneurship, Prof. Wooldridge has led the development of a multi-disciplinary entrepreneurship curriculum on campus, revitalized the campus' extra-curricular entrepreneurship activities, built strategic relationships across, and beyond, campus, and created a team-based mentorship program to serve campus-based start-ups. These accomplishments were recently recognized by the United States Association for Small Business and Entrepreneurship through their "Outstanding Emerging Entrepreneurship Program Award," presented to the Berthiaume Center, January 2016.

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# Introduction

This book has as its goal to present works that look at the issues related to social responsibility and sustainability from the perspective of the trade-off between reporting versus regulation. This trade-off can be viewed as a continuum with one endpoint anchored on a complete regulatory approach to ensuring corporations and government organizations adhere to established principles of social responsibility and sustainability. At the other end of the spectrum would be a complete laissez-faire approach to meeting these principles with stakeholders making decisions about whether or not to support firms based on their public disclosures. We see nations spread out along this continuum without examples operating at either endpoint. However, it does seem important at least to frame the debate. This debate can be seen as arguing the point at which governments should operate, either establishing both social responsibility and sustainability targets along with enforcing regulations to achieve these targets or allowing markets to create incentives to achieve these targets. Readers of the book should consider not only the information provided directly, but also how it may inform the debate over the role of regulation versus reporting in meeting the goals of social responsibility and sustainability. For it is these goals that are important at no more critical time than now.

At the core of the social responsibility and sustainability movement is a desire to change the direction of national economies, and with that the global direction toward more sustainable outcomes. There is a belief that the current path of progress will result in a world that will not sufficiently accommodate the global population. The related question concerns how to efficiently and to effectively make this change in direction; are governments the answer or should markets lead the charge? The chapters in this book should be interesting to readers as they consider this question.

In Chap. 1, Sanjay Bhāle and Sudeep Bhāle present vital aspects of Corporate Social Responsibility (CSR) to establish its relationship with pragmatic business ethos in the pursuit of sustainable growth and economic development. They present evidence, which suggests that only a few organizations have recognized the importance of CSR as an integral part of corporate culture with consistently increasing contribution to the GDP of the nation. This paper includes a conceptual method to validate the issue with the help of a live case substantiating that CSR is the decisive determinant of sustainable socioeconomic development. This paper also endeavors to support a structural model of business growth based on data gathered during the research.

In Chap. 2, Daniela M. Salvioni, Simona Franzoni, and Francesca Gennari look at the way in which corporate governance decisions are connected to disclosure activities. Sometimes, there are significant differences related to the characteristics of the stock markets and the composition of the corporate ownership. They argue that the emergence of the concepts of Corporate Social Responsibility (CSR) and Stakeholder Relations Management involves modifications in the corporate governance approach in accordance with the philosophy of sustainable development as critical element for long-term success in global markets. Their aim is to make some considerations when the CSR adoption and the disclosure represent a factor of convergence between insider and outsider corporate governance systems.

In Chap. 3, Henk Kloppers looks at CSR in the context of companies in South Africa. In the last decade or so, there have been significant leaps in incorporating CSR information in disclosures of South African companies. This is mainly due to the release of the authoritative reports of the King Commission on Corporate Governance and specifically the King II and King III Reports. This chapter examines the CSR content in these reports in order to provide guidance to businesses on the issue of CSR.

In Chap. 4, Charika Channuntapipat looks at the critical issue of providing assurance to sustainability disclosures. The assurance of CSR disclosures has been criticized as a part of greenwashing activities of some organizations. Unlike financial audit practice, sustainability assurance is largely unregulated. Thus, the roles of sustainability assurance providers are not clear whether they serve as a watchdog for stakeholders or business consultants of reporting organizations. This chapter employs a qualitative research approach—actor–network theory, using textual sources as the main data collection method. The chapter focuses on how sustainability assurance providers negotiate their roles and identities through their problematization of the assurance practice.

In Chap. 5, Guangyou Liu and Kaisong Gong examine another critical issue that must be addressed if governments are to regulate firm's socially responsible and sustainable practices; how to avoid corruption that could thwart the government's efforts. The authors investigate the role of state auditing in the anticorruption campaign throughout the Chinese Central Government Succession substantiated in 2012. The chapter reveals that the anticorruption campaign launched by the new Central Government of China concentrates on the political path for the country's healthy and steady socioeconomic development instead of the political purge stereotypes imposed upon it. Furthermore, the chapter shows that CNAO, which performs the state audit, follows the political directions of the renewed anticorruption campaign.

In Chap. 6, Jeffrey Gauthier and Bill Wooldridge develop a theory concerning how ratings of firms' business practices are likely to affect firm behavior. More specifically, the chapter draws from established theory on cognitive choice models to posit that sustainability ratings systems may be more likely to promote improved social and environmental performance in non-core practices than in core practices. This improved performance constitutes a form of compensating tactics, as ratings agencies' analysts may raise their ratings of firms in which poor sustainability performance in core practices remains.

In Chap. 7, Farzaneh Jalali and Graham Gal examine an issue that can be particularly relevant when governments take a role in a country's sustainable development—how can they direct their actions toward a sustainable future? The chapter examines the role of sustainability and its requirements as well as the consequences in macroplanning and budgeting in Iran. The chapter examines the documents related to budgeting which contain information about sustainability and the way in which sustainability has grown in Iran's budget preparation. Budget circulars for the 10 years from 2007 to 2016 are reviewed with particular attention to the level of sustainability considered. Finally, a picture from budgeting and macroplanning in Iran with the advent of sustainability issue is presented. Sustainability issues as well as sustainable development and environmental issues have gradually evolved to consider economic, social, and environmental impacts.

In Chap. 8, Chen-Wen Chen presents a model of the process by which managers provide signals of the corporate actions to investors. As noted in previous chapters, social responsible and sustainability disclosures are voluntary. This chapter models the reaction of a manager to voluntary disclosures and the strategic decisions within social contexts concerning financial disclosure. Extensions of the base model examine the interaction of financial disclosure, investor relations, and managerial incentive to disclose, such as demonstrating a signaling game between a manager and investors for financial disclosure. With the reaction of investors to voluntary disclosure after information, this chapter analyzes why the disclosure of information has regulated the results as noise for investment decisions.

In Chap. 9, Ertan Kucukyalcin discusses the problem of different stakeholder groups having greater supremacy over the objectives of the corporation. A competition exists between shareholders and other stakeholders for the firm's direction. Proponents of both theories also have agreements on many areas. For example, they agree that corporations should create wealth and consider their stakeholders' concerns in making decisions. However, disagreements remain with important implications; what should be the corporate objective function? This chapter considers both the shareholder and stakeholder theories to construct an explicit corporate objective function with the aim at identifying the conditions under which the two theories converge. This also sheds light on how each theory advises management to act differently in similar business conditions.

In Chap. 10, Panagiotis Reklitis, Panagiotis Trivellas, Mantzaris Ioannis, Elisavet Mantzari, and Dimitrios Reklitis examine the effect of employees' perceptions of CSR activities of their organization on work-related attitudes. Building on the argument that employees' perceptions of CSR activities may be significantly related to workplace attitudes, behaviors, and performance, this chapter examines two CSR aspects (social and environmental) and several work-related attitudes (job performance, employee satisfaction, organizational commitment, OCBO, OCBI).

Their findings highlight that different CSR aspects exert selective direct effects on specific employees' attitudes.

In Chap. 11, Alexandros G. Sahinidis, Dimitra Daskalaki, Elisavet Mantzari, and Ioannis Mantzaris's objective is to investigate the effect of the economic crisis in Greece on companies' CSR budgets. One of the major concerns of firms is that the costs of CSR and sustainability actions make them hard to continue when their financial success is in question. The companies examined, reprioritized their CSR interests, doubling their society-related activities and reducing nearly by half those addressing the company personnel. The focus of the chapter is on a period of recession and shows how companies adapt to pressures during a period of adverse economic conditions and the way they learn to redeploy their resources allocated to social causes.

In Chap. 12 Ewan Mackie, Imon Palit, Madhu Veeraraghavan, and John R. Watson examine the riskiness of investing in socially responsible firms. The chapter identifies a lack of research that includes certain measures of risk when evaluating the return of socially responsible firms. The chapter investigates whether daily returns of Australian socially responsible equity funds have different tail risk exposure in the return distribution compared to matched conventional equity funds. The Australian funds management industry provides a natural setting within which to study the risk exposure of socially responsible investment funds. This is because Australia is the first country to introduce regulations that requires issuers of financial products and financial advisors to disclose and advise on ethical, social, and governance (ESG) considerations.

In Chap. 13, Ismail Adelopo, Musa Obalola, and Ramiro Cea Moure look at the CSR disclosures of Western European Banks. The chapter examines the impact of legal origin and culture on CSR disclosures. The examination is based on the CSR disclosure and other firm-specific information in the sustainability and annual reports for 2005 and 2008. The authors conclude that banks in Civil Law origin countries make more employee and shareholder social disclosures than banks in both Common Law and Scandinavian countries.

In Chap. 14, Stefano Marasca, Lucia Montanini, Alberto Manelli, Alessia D'Andrea, Martina Vallesi, Vania Carignani, and Paolo Galassi investigate the Italian Health System. As the Italian Health System is publically financed, the individual health units present difficulties in defining and measuring healthcare output and, at the same time, in the communication process to stakeholders about the clinical and ethical impacts of the use of economic resources. The chapter presents a reporting model based on a triple bottom-line approach (social, environmental, and economic) that could offer a system of multi-dimensional analysis, reducing information asymmetries between the health unit and its stakeholders by increasing external communication.

In Chap. 15, Amin Naseri, Rahmatollah Gholipour, and Bita Mashayekhi investigate the issue that governments need to address when they privatize industries which were previously state-owned. Article 44 of Iran's constitution sets out policies, which are the most important legal reference for the economic activities of the public sector's enterprises in Iran. The chapter examines the strengths and weaknesses of the law in terms of good corporate governance rules. The chapter concludes that the most important weaknesses of Iran's privatization policies are as follows: (a) lack of a clear ownership policy for the state-owned enterprises; (b) insufficient consideration of the private and cooperative sectors and minority shareholders' concerns when privatizing large state-owned enterprises; (c) lack of an appropriate mechanism for a balanced relationship with all stakeholders.

In Chap. 16, Tomeika Williams examines issues related to fraud in the precious metals industry. The "tone of the top" sets an example of ethical behavior within an organization and is a responsibility of the board and executive management. The chapter reviews board composition characteristics of publicly traded corporations in the precious metals industry in 11 fraud cases from the year 2012. Several theories are presented to find a possible linkage between internal and independent corporate board members that may be in violation due to lack of strong corporate culture.

In Chap. 17, Marisa Agostini and Ericka Costa discuss the importance and relevancy of integrated reporting as investors have been requiring more information about how sustainability issues and initiatives are expected to contribute to the long-term growth. Both financial and non-financial reporting together provide stakeholders with a comprehensive view of the position and the performance of companies. This integrated reporting has also been encouraged by some European regulatory bodies. Despite this interest, social and environmental information is still disclosed differently in consolidated annual reports and in social-environmental reports.

In Chap. 18, Emrah Keleş and Ayten Çetin show that CSR increases volatility since it creates noise in financial markets. The chapter uses ESG research data from a large number of US firms and places them into high, medium, and low groups along with their social and environmental scores. The chapter then predicts the returns of these groups using investor's sentiment, which has the tendency to act based on cognitive biases rather than all the information at hand.

In Chap. 19, Julian Lustig Gonzalez and Laura Harcourt report on differences and similarities between various managers in creating socially responsible portfolios. This chapter examines criteria used by investment firms as a basis for standardized selection of socially responsible firms.

In Chap. 20, Obby Phiri and Elisavet Mantzari examine the mining industry in Zambia and their CSR practices. Using CSR disclosures and interviews of mining managers the authors explore motives for these disclosures and the prospects for future reporting.