

Introduction to Business Sustainability

1. EXECUTIVE SUMMARY

Business sustainability is gaining considerable attention from investors, regulators and businesses worldwide and particularly those in Asia. In today's business environment, global businesses face increasing scrutiny and profound pressure from lawmakers, regulators, the investment community and their various stakeholders to focus on their multiple-bottom-line (MBL) of economic, governance, social, ethical and environmental (EGSEE) performance. Global organizations recognize the importance of sustainability performance in creating shared value for all their stakeholders from shareholders to creditors, customers, suppliers, employees, government, society and the environment. A growing number of public companies worldwide and listed companies in Asia in particular are now issuing sustainability reports on some or all five EGSEE dimensions of sustainability performance. This trend is expected to continue well into the future. This chapter presents an introduction to business sustainability performance, reporting and assurance in the context of the Asian business environment.

2. INTRODUCTION

Business organizations worldwide and public companies in Asia in particular are now facing the challenges of adopting proper management strategies and practices to effectively respond to social, ethical, environmental and governance issues while creating sustainable financial performance. Traditionally, business organizations have reported their performance on economic transactions. Their sole focus on financial results has become less relevant. In recent years, stakeholders, investors, regulators, global institutions and organizations, and the public at large have increasingly demanded information on both financial and non-financial key performance indicators (KPIs) in this platform of MBL accountability and sustainability reporting.¹ This chapter introduces the definition and concept of business sustainability and offers guidance to organizations for properly integrating sustainability into their business models, strategic plans and practices. It also provides guidelines for complete and accurate measurement, recognition and disclosure of all five EGSEE dimensions of sustainability performance in an integrated reporting model.

3. DEFINITION

Business sustainability has evolved from a focus on corporate social responsibility (CSR), corporate governance, and internal operational efficiencies to integration into organizations' strategies, culture and practices toward long-term and multi-dimensional sustainability performance. Sustainability can have different meanings as perceived by different stakeholders. From the academic and practical aspect, business sustainability can be defined as environmental preservation to create a better environment for future generations. It can be viewed as fulfilling the company's CSR responsibility for society above and beyond mandatory obligations. From a financial perspective, sustainability is considered as focusing on short-, medium- and long-term financial performance to generate value for shareholders. It can be also viewed as conducting business activities ethically with effective corporate governance to ensure going concern and continuity of the business.

Business sustainability is also a multi-disciplinary function of accounting, economics, ethics, finance, management, marketing, law and supply chain management, among others, with a keen focus on improving economic vitality, ethical behavior, ecological health, governance measures and social justice. It can "bring benefits in terms of risk management, cost savings, access to capital, customer relationships, human resource management and innovation capacity."² It also facilitates engagement with stakeholders regarding sustainable growth and risks in building trust in the company and with shareholders by enhancing effective capital allocation and achieving long-term investment goals. The 2013 *Global Corporate Sustainability Report* encourages companies to engage their management and suppliers in the establishment of more sustainable practices and integration of sustainability into their supply chain processes.³

Business sustainability has evolved in the past three decades, with an initial focus on sustainable development in leaving a better environment for future generations, to CSR, corporate governance, and now with the main goal of creating shared value for all stakeholders including shareholders. Business sustainability is not a single event; it is a journey to improve both financial economic sustainability performance (ESP) and non-financial governance, social, ethical and environmental (GSEE) performance to create shared value for all stakeholders. In this context, sustainability focuses on activities that generate financial (long-term earnings, growth and return on investment) and non-financial (environmental, social, ethical and governance) sustainability performance that concerns all stakeholders. The terms business sustainability, CSR and triple bottom line (focusing on environmental, social and governance (ESG)) have been used interchangeably in the literature and authoritative reports. Business sustainability can also be defined as a social objective with a keen focus on achieving the triple bottom line performance of profit, planet and people.⁴ However, business sustainability is regarded as much broader than CSR and even ESG and has recently gained more acceptance.⁵ It has advanced from a main focus on CSR to integration into corporate culture, mission, strategy, business model and management processes.⁶

Business sustainability for organizations refers to not only providing products and services that satisfy customers, but also operating in a socially responsible manner, protecting the environment and presenting reliable and transparent sustainability reports. The focus on business sustainability can benefit business

organizations in many ways, including higher market and accounting performance, improved business reputation, enhanced product innovation and earnings growth, customer and employee satisfactions and creation of more stakeholder value. Yet, sustainability can be viewed as a box-ticking compliance and risk-mitigation exercise. It is defined in this book by encompassing all the above definitions in creating synergy for business strategies, activities and performance from ethical, environmental, social, compliance, legal, governance and economic dimensions in creating shared value for all stakeholders. A report released by the International Federation of Accountants (IFAC, 2015: 3) indicates that global business organizations are expected to “take responsibility for a broader range of sustainability issues, such as social and environmental aspects that will ultimately affect financial performance and an organization’s ability to create value over time.”⁷ In summary, business sustainability is defined as a process of focusing on the achievement of all five: economic, governance, social, ethical and environmental (EGSEE) dimensions of sustainability performance in creating shared value for all stakeholders.

4. THEMES OF THIS BOOK

Business sustainability has advanced from the branding and greenwashing of focusing on CSR to the strategic imperative of achieving both financial economic sustainability performance (ESP) and non-financial GSEE sustainability performance in the past decade. There are five primary themes in this book, which present a framework for the five dimensions of business sustainability performance (EGSEE) and 10 sustainability principles.⁸ These five themes are also applicable in all 12 Asian jurisdictions and their economies. First, the business sustainability framework is driven by and built on the stakeholder theory, which is the process of protecting the interests of all stakeholders, with a keen focus on achieving long-term and enduring financial and non-financial performance for all corporate constituencies from shareholders to creditors, employees, customers, suppliers, society and the environment. The stakeholder theory implies that business organizations are responsible to many of constituencies and thus add value for all stakeholders, as listed above.⁹ This stakeholder view of business organizations and business sustainability is supported by researchers, regulators and the business and investment community.

Second, the main goal and the objective function for business organizations is to maximize firm value. The goal of firm value maximization under the business sustainability framework can be achieved when the interests of all stakeholders are considered. The main focus is on long-term shareholder value creation and maximization while considering tradeoffs among the other apparently competing and often conflicting interests of society, creditors, employees and the environment. Theoretically, management’s engagement in non-financial GSEE sustainability activities, performance and disclosure can be viewed as value increasing or value decreasing for investors. On the one hand, companies should effectively manage and improve GSEE performance, enhance their reputation, fulfill their social responsibility, and promote a corporate culture of integrity and competency. On the other hand, companies can survive and generate sustainable performance only when they continue to be financially profitable and are able to create shareholder value. Nonetheless, financial ESP, and non-financial GSEE sustainability performance and reporting complement

each other and are not mutually exclusive. Companies that are governed effectively, are socially and environmentally responsible, and conduct themselves ethically, are expected to produce sustainable performance, create shareholder value and gain investor confidence and public trust.

The third theme is the time horizon of balancing short-, medium- and long-term performance with a keen focus on long-term performance. Business sustainability focuses on the achievement of long-term and enduring performance and enables corporations to focus on maximizing long-term performance instead of meeting periodic financial targets. Businesses can no longer focus only on short-term earnings performance in beating analysts' forecasts to generate positive stock movements.

The fourth theme is the multi-dimensional nature of sustainability performance in all EGSEE areas. The multi-dimensional EGSEE sustainability performance is interrelated and integrated. The relative importance of the dimensions, with respect to each other and their contribution to the firm's overall long-term value maximization, is affected by whether these EGSEE dimensions are viewed as competing, conflicting or complementary. One view is that these EGSEE dimensions are complementary because a firm that is governed effectively adheres to ethical principles and commits to CSR and environmental obligations, enabling sustainable generation of long-term financial performance. Another view is that corporations must do well financially in the long term to be able to do well in terms of CSR and environmental activities. On the one hand, corporations that are managed ethically, governed effectively and are socially and environmentally responsible are expected to produce sustainable performance, create shareholder value and gain public trust and investor confidence. On the other hand, more economically profitable and viable corporations have more resources to create jobs and wealth and are in a better position to fulfill their social and environmental responsibilities.

The final theme of the book is its focus on and relevance to Asia, for several reasons. First, sustainability activities in Asia have grown significantly in the past decade as business organizations in Asia face greater pressure either through voluntary or mandatory requirements from regulators to engage in sustainability and CSR programs. Second, this trend is expected to continue as Asian countries in general and Mainland China in particular step up to forge alliances with European countries to take a leading role in CSR and environmental initiatives by addressing product quality and safety and tackling climate change. Third, the United States' recent decision to exit the 2015 Paris Agreement is expected to encourage other countries (e.g., Mainland China, India and Singapore) to step up by providing leadership in sustainability initiatives. Fourth, the growth in Asian economies in the recent decade, in particular Mainland China, allows companies to focus more on non-financial sustainability programs. Finally, the achievement of sustainable economic growth, prosperity, and performance has been observed in Asia and is expected to continue in the near future.

Business sustainability in general and CSR in particular as a concept has evolved over time, with different interpretation of its practices across different sectors, cultures and countries in Asia. Corporate accountability, citizenship, ethics, responsible entrepreneurship, corporate sustainability, responsible competitiveness and other terms have been used to describe CSR in Asia. But it can generally be explained as the responsibility of corporations toward the society within which they operate.

This responsibility usually spans three areas, which include: economic, social and environmental responsibility. CSR started as a form of realization that corporations have responsibilities to society beyond profit maximization, which triggered the motivation behind philanthropy.¹⁰ Currently, the motivation for CSR has advanced from mere philanthropy toward awareness of the environmental implications of industrialization and of the social well-being of both internal and external stakeholders in Asia. Instead of pure and simple philanthropy, CSR has recently assumed the form of what is called ‘social investment,’ with the establishment of more social enterprises.¹¹

5. ATTRIBUTES

Two attributes of business sustainability are sustainability performance and sustainability disclosures. Both attributes are important to all stakeholders. The sustainability performance attribute underscores that firms which focus on their non-financial performance including social and environmental performance are managed more effectively with good corporate governance and are more financially sustainable. The voluntary or mandatory disclosure attribute of sustainability performance posits that “good type” firms that focus on non-financial (governance, social, ethical and environmental (GSEE)) and sustainable financial performance have more incentive to disclose information to differentiate themselves from “bad type” firms that do not focus on GSEE and financial sustainability, in order to avoid getting a bad reputation. Disclosure of GSEE sustainability may signal management commitment to greater transparency of both financial and non-financial performance, thereby reducing information asymmetry and increasing firm value.

Companies should strive to maintain good business sustainability in their everyday practices to create shared value for stakeholders and to minimize information asymmetry to all stakeholders. If a company withholds information about its practices, whether intentionally in efforts to minimize the effect on the bottom line or unintentionally as a result of not performing due diligence on its processes, this may result in increased perceived riskiness of the venture, decreased share price, concerns regarding management’s ability to lead the organization along the path toward sustainability in generating sustainable performance and growth. Thus, good sustainability is important for a company in the short run to ensure viability in the ever-changing marketplace. However, to build a strong company in the long run, business sustainability must be put into practice to prepare for the future and to mitigate unforeseen or inescapable events. One of the key features of putting business sustainability into practice is that when faced with problems from multiple stakeholders, a company with good sustainability practices can pivot its position to answer the problems in the best manner possible.

6. PRINCIPLES

Business sustainability has been promoted in response to demands from investors, necessary compliance with requirements of regulators, and voluntary initiatives by corporations considering interdependencies between global financial markets, the

business community and investors in advancing sustainable performance. More than 8,000 companies in 140 countries have adopted the 10 sustainability principles established by the United Nations Global Compact and integrated these principles into their strategic planning and operations.¹² These 10 sustainability principles are classified into the four general categories of human rights, labor, environment and anti-corruption. They are, in turn, related to the three dimensions (social, environmental and ethical) of sustainability performance, as explained in the previous section. The 2013 *Sustainability Report* of the United Nations (UN) Global Compact suggests two ways for companies to achieve business sustainability: (1) by integrating the 10 principles into their strategies and operations and (2) by taking actions that support continuous improvement in sustainability performance.¹³ The UN Global Compact report also provides the Global Compact Management Model as a practical tool for companies to improve their sustainability performance.¹⁴ The suggested model consists of six managerial processes of committing to, assessing, defining, implementing, measuring and communicating sustainability strategies, operations and performance in ensuring alignment with the 10 principles and compliance with applicable laws, rules and regulations.¹⁵

7. DIMENSIONS OF SUSTAINABILITY PERFORMANCE

Business sustainability performance can be beneficial to both internal and external stakeholders. Stakeholders are those who have vested interests in a firm through their investment in the form of financial capital (shareholders), human capital (employees), physical capital (customers and suppliers), social capital (society), environmental capital (environment) and regulatory capital (government). Stakeholders have reciprocal relation and interaction with a firm in the sense that they contribute to the firm's value creation and their wellbeing is affected by the firm. In essence, sustainability performance can affect and be affected by stakeholders.

Sustainability performance is typically classified into financial and non-financial performance and grouped into the five dimensions of Economic (E), Governance (G), Social (S), Ethical (E) and Environmental (E), abbreviated as EGSEE.¹⁶ Although business sustainability continues to evolve, several dimensions of sustainability performance pertaining to social and environmental initiatives have gained widespread global acceptance. These initiatives include an ethical workplace, customer satisfaction, just and safe working conditions, non-discriminatory fair wages, workplace diversity, environmental preservation, clear air and water, minimum age for child labor, safe and quality products, concern for the environment and fair and transparent business practices. Each industry has its own applicable set of sustainability financial and non-financial KPIs. Each business organization must carefully identify its own social and environmental responsibilities given the context of the business culture in which it operates. The list of financial and non-financial sustainability KPIs depends on a variety of factors: industry, legal regimes, cultural background, corporate mission and strategy, corporate culture, political infrastructure and managerial philosophy. Despite these disparate sustainability performance dimensions and their KPIs, sustainability has become an integral component of business. This section describes each of the EGSEE sustainability performance dimensions and their related KPIs.¹⁷

7.1 Economic Sustainability Performance

The most important and commonly accepted dimension of sustainability is “economic performance.” The primary goal of any business organization is to create shareholder value through generating sustainable economic performance. Business organizations should focus on activities that generate long-term corporate profitability rather than short-term performance. The economic dimension of sustainability performance can be achieved when business organizations focus on long-term sustainability performance and improved effectiveness and efficiency of production. Long-term economic sustainability performance should be communicated to shareholders through the preparation of high-quality financial reports in compliance with global accounting standards as well as the Global Reporting Initiative (GRI) Guidelines.¹⁸

The economic dimension of sustainability should reflect the financial strengths and concerns of an organization as well as the economic impacts on its stakeholders and society.¹⁹ Economic sustainability performance can be measured directly through financial activities between an organization and its stakeholders or indirectly through non-financial costs and benefits of economic relations and their effects on stakeholders. The financial economic dimension of sustainability is further presented in chapter 5.

7.2 Governance Sustainability Performance

The corporate governance landscape has changed significantly in the aftermath of the global 2007–2009 Financial Crisis. The lack of effective corporate governance has been perceived as an overriding contributing factor in the global Financial Crisis. Internal and external corporate governance measures have since been established by policymakers, regulators and corporations to improve the quality of corporate governance and thus stakeholder trust and investor confidence in corporate sustainable performance and reporting. Regulatory reforms in the United States such as the Sarbanes-Oxley Act of 2002²⁰ and the Dodd-Frank Act of 2010²¹ are designed to improve the quality and effectiveness of corporate governance. Effective corporate governance promotes accountability of the board of directors and executives; enhances sustainable operational and financial performance; improves the reliability and quality of financial information; and strengthens the integrity and efficiency of the capital market, which results in economic growth and prosperity for the nation. Effective corporate governance sustainability requires setting an appropriate tone at the top defining roles and responsibilities of all corporate gatekeepers, from the board of directors and executives to internal and external auditors and legal counsel, and promoting accountability for them. The effectiveness of corporate governance is also affected by legal, regulatory, internal and external mechanisms and best practices to create shared value for all stakeholders, as further explored in chapter 6.

7.3 Social Sustainability Performance

The social dimension of sustainability performance reflects the transformation of social goals into practices that benefit an organization’s stakeholders. Social performance measures an organization’s social mission and its alignment with the

interests of society. The social dimension of sustainability performance ranges from ensuring high quality of products and services, better customer satisfaction and improved employee health and wellbeing, to making a positive contribution to the sustainability of the planet and quality of life for future generations.

Socially responsible investment (SRI) is becoming nowadays an increasingly important part of business. Though the mantra of business has long been to increase shareholders' profits, the advent of benefit corporations (or B-corporations) has brought with it a chance for shareholders to affect businesses' methods of doing business to increase their own desire for social change instead of personal enrichment. The United Nations Principles of Responsible Investing (PRI) were initiated in 2005 to encourage global investors to integrate ESG into their investment decisions.²² Recently, under sustainable and socially responsible investing (SRI) principles, investors consider various sustainability issues in their investment analyses and SRI have increased by more than 22 percent to \$3.74 trillion in managed assets during the 2010–2012 period.²³ The social dimension of sustainability performance is typically viewed as CSR and is further explained in chapter 7.

7.4 Ethical Sustainability Performance

The ethical dimension of sustainability performance and particularly corporate ethical culture plays an important role in ensuring the achievement of corporate goals and financial sustainability. The effectiveness of ethical sustainability performance depends on a corporate culture of integrity and competency and an appropriate tone at the top. Characteristics of an ethical organization culture are codes of conduct for directors, officers and employees; a system of responsibility and accountability; and a workplace that promotes honesty, mutual respect and freedom to raise concerns. The persistence and existence of corporate scandals and financial crises have shown that companies which conduct their business ethically are more sustainable in the long term and can generate high quality and quantity of earnings, economic growth and development. The ethical dimension of sustainability performance is often integrated into business environment and corporate culture in achieving financial economic sustainability performance, as further discussed in chapter 8.

7.5 Environmental Sustainability Performance

Stakeholders are demanding clearer and more transparent information about the impacts of an organization's activities and operations on the environment beyond what is legislated for by law. The environmental dimension of sustainability performance includes creating a better work environment, reducing the carbon footprint, improving air and water quality and maximizing the positive effects of an organization on natural resources and the environment. The Coalition for Environmentally Responsible Economies (CERES) and the UN Environment Program, in collaboration with the UN Global Compact, promote environmental initiatives.²⁴

Governments throughout the world are instituting measures to ensure that the environment is better protected, at the behest of society at large. Effective achievement of environmental sustainability performance requires businesses to create the right balance in maximizing their economic profit, protecting the environment

and ensuring a better environment for the next generations. Climate change and greenhouse gas emissions affect organizations of all types and sizes worldwide and thus should be integrated into sustainability initiatives, decisions, actions and performance. The environmental dimension of sustainability performance will be discussed in detail in chapter 9.

8. VALUE RELEVANCE OF SUSTAINABILITY PERFORMANCE

Integration of the five EGSEE dimensions of sustainability performance into managerial strategies and practices enables companies to conserve scarce resources, optimize production processes, identify product innovations, achieve cost efficiency and effectiveness, increase productivity and promote corporate reputation. The 2013 *Global Corporate Sustainability Report* released by the United Nations Global Compact addresses the state of corporate sustainability and presents the actions taken by companies worldwide in integrating sustainability into their strategies, operations and culture.²⁵ The report encourages companies to engage their suppliers in the establishment of more sustainable practices and the integration of sustainability into their supply chain processes. In the context of shareholder wealth maximization and stakeholder welfare maximization, sustainability activities and performance enhance the long-term value of the firm by fulfilling firms' social responsibilities, meeting their environmental obligations and improving their reputation.

The 2013 United Nations study suggests that the non-financial GSEE dimensions of sustainability performance are value relevant to investors by presenting new risks and opportunities that are fundamental in performance analyses and portfolio investment valuation.²⁶ The study argues that GSEE performance information facilitates investors to conduct economic and industry analyses of GSEE non-financial information. This includes trends, externalities and industry competitiveness effects of GSEE that may affect shareholder value creation as well as assessment of the company's sustainability strategies and practices. These assessments may change the traditional investment valuation parameters and assumptions.²⁷ Proper understanding of sustainability theories, standards, risk assessment, and performance has been a major challenge for companies in measuring, recognizing and disclosing the five EGSEE dimensions of sustainability performance and for corporate stakeholders (including shareholders) in evaluating their investment portfolios.

Several theories (including agency/shareholder, stakeholder, signaling/disclosure, institutional, legitimacy and stewardship), which will be discussed in subsequent chapters, can explain the interrelated dimensions of sustainability performance and their integrated links to corporate culture, business model, and managerial strategies, processes and practices and their implications for international businesses. These theories are interrelated and compatible. Hence, they can individually and collectively address the different EGSEE dimensions of sustainability performance in creating stakeholder value. The International Standardization Organization (ISO) has issued several ISO standards relevant to business sustainability.²⁸ The ISO standards establish practical foundations that serve as the buildup based on the sustainability theoretical framework. Sustainability reports reflecting all five EGSEE dimensions of sustainability performance are deemed to be useful when they are complete and accurate, and when their reliability, objectivity and credibility are affirmed by ISO

certifications. Thus, high-profile international firms can demand their trading partners to comply with ISO 9000 quality control, ISO 14000 environmental and ISO 26000 CSR standards. These ISO certifications of sustainability performance reports provide external assurance about the credibility and legitimacy of management processes and effective communication of sustainability performance to all stakeholders through integrated sustainability reporting. In recent years, risk-taking by firms and investment banks has become contagious when company executives are incentivized to take excessive risk (as evidenced by outrageous risk at Enron, WorldCom and banks issuing subprime mortgages). Global business changes constantly and becomes more volatile, unpredictable and complex. Six sustainability-related risks including strategic, operations, compliance, financial, security and reputation are relevant to sustainability performance.²⁹ Proper consideration, assessment and management of these six risks become increasingly important and play an essential role in achieving EGSEE sustainability performance.

A 2014 survey of investors conducted by PricewaterhouseCoopers (PwC) found that about 80 percent of responding investors said they considered non-financial GSEE sustainability issues in their investment decisions, when acting as voting proxies and in creating investment portfolios in the past year. Among the top sustainability issues considered by investors are climate changes, resource scarcity, CSR and good citizenship. Investors' primary drivers for considering sustainability issues, in order of performance, are risk reduction (73 percent), avoiding firms with unethical conduct (55 percent), performance enhancement (52 percent), cost reduction (36 percent), attracting new capital (30 percent), improving capability to create value (30 percent) and being responsive to interest groups (21 percent).³⁰

Business sustainability enables management to focus on long-term and enduring financial and non-financial performance and to disclose high-value and forward-looking information to all stakeholders. With GSEE sustainability information, management has the opportunity to gather and use relevant financial and non-financial information for planning and forecasting with the related relevant metrics that drive the business. Management can better focus on sustainable value-deriving activities and use relevant information to effectively communicate the company's sustainability performance, which creates value for stakeholders. Business sustainability promotes better business strategy, planning and decision-making, supply chain and financial and non-financial management. It is important to communicate sustainability performance information regarding business profits, processes, people and planet (the environment) to all stakeholders in an integrated sustainability report.

9. EMERGENCE OF BUSINESS SUSTAINABILITY IN ASIA

The International Monetary Fund reports the World Economic Outlook in April 2018.³¹ Three of the 10 largest world economies are in Asia. With Mainland China's emergence as the second largest economy, together with Japan (third) and India (seventh), they report a combined GDP (Gross Domestic Product) of US\$22.1 trillion, which rivals that of their North American counterparts: US (first) and Canada (tenth) with a total of US\$22.2 trillion, as well as the combined US\$12.3 trillion GDP for the European countries of Germany (fourth), United Kingdom (fifth), France (sixth)

and Italy (eighth). Despite demanding economic performance, Asian sustainability reporting performance lags behind Europe and North America and is ranked third among the continents.

The Asian economies together have distinct characteristics from those of Europe and North America. While the Asian countries share many similarities, each country has its own unique culture, political and economic system, which are vastly different from one another. Mainland China and India are the oldest ancient civilizations and Chinese and Indian cultures impose significant influence on countries in the region. The religious and philosophical influence of Mainland China (Confucianism) and India (Buddhism) on respected traditions cut deep in every Asian country. Central to Asian cultural heritage is the command of respect for the head or patriarch of the family, whose decisions cannot be challenged. Family hierarchy runs deep into business enterprises. This in turn greatly impacts the governance system in Asian companies. Most of the Asian countries evolved from the autocratic rule of monarchies to pluralistic socialist systems and democracies. The political process for modern democratization empowers different governments which exert influence and regulation on the operation of companies. The varying powers of governments to legislate for and implement sustainability policies further affect the development of sustainability strategies and disclosures.

One can note that there is no specific Asian model of CSR sustainability practice because of the vast, diverse histories and cultures which span the countries and jurisdictions of Asia. CSR activities in Asia are linked to the nature of the respective value systems of each country. This book presents and evaluates 12 Asian economies, including Mainland China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Vietnam. Various aspects of the business sustainability performance dimensions; sustainability reporting and assurance; and sustainability education, practices and research will be discussed throughout the subsequent chapters. Drivers of sustainability including political, cultural, governmental and legal drivers and regulation, globalization and civil society will be analyzed.

The emergence of sustainability in Asia is closely aligned with the economic development of the region. In their efforts to increase the GDP of their respective countries, Asian companies are adopting policies toward globalization and partnering with Western multi-national companies (MNCs). These MNCs are usually from countries with leading CSR practices and CSR-based standards such as labor rights and environmental performance. They screen and choose their Asian partners in accordance with these practices and standards. In response to the demands of MNCs, many Asian companies attempted to improve their CSR performance and tighten their CSR standards in managing their supply chains. Consequently, these MNCs provide learning opportunities for their Asian counterparts. In the process of their CSR development, Asian countries realize the economic incentives in improving their sustainability performance. Globalization and the export of products to foreign countries provide further incentives for Asian companies to promote CSR and sustainability initiatives. Across Asia, sustainability initiative and performance vary greatly. Nonetheless, the region has made substantial improvement and achieved milestones in sustainability performance in all five EGSEE dimensions.

10. SUSTAINABILITY REPORTING AND ASSURANCE

The role of corporations in our society has evolved from profit maximization to creation of shareholder value and in recent years protection of the interests of all stakeholders. In today's business environment, global businesses are under scrutiny and profound pressure from lawmakers, regulators, the investment community and stakeholders on their sustainability performance. Corporate disclosure, both mandatory and voluntary, is the backbone of financial markets worldwide. Public companies are required to disclose a set of financial information as long as their securities are held by the public. The primary purpose of corporate disclosure is to provide economic agents (e.g., shareholders, creditors) with adequate information to make appropriate decisions. Mandatory corporate reporting, including financial reports disseminated to investors and filed with regulators, is designed to provide investors with relevant, useful and reliable information in making sound investment and lending decisions. Voluntary sustainability reports are usually considered as any disclosures outside of financial statements that are not required by regulators and standard-setters.

Until the late 1990s, sustainability reports had been largely voluntary as part of a firm's supplementary disclosures. In recent years, many jurisdictions including Australia, Austria, Canada, Denmark, France, Germany, Malaysia, Netherlands, Sweden, Hong Kong and the United Kingdom have adopted sustainability reporting. Regulators in other countries are expected to follow suit. Many global regulators, standard-setters and other organizations, including the Sustainability Accounting Standards Board (SASB), the GRI and the International Integrated Reporting Council (IIRC) are now promoting and suggesting guidelines for integrated/sustainability reporting and assurance. Business sustainability requires organizations to focus on achieving all five EGSEE dimensions of sustainability performance by taking initiatives to advance some social good beyond their own interests, compliance with applicable regulations and enhancement of shareholder wealth. Simply stated, business sustainability means enhancing corporations' positive impacts and minimizing their negative effects on society and the environment while creating value for stakeholders.

Over recent years, companies have begun to stray from the mindset of "profit only" to the recognition that building and maintaining sustainable business practices is a good strategy for their companies. In April 2013, the IIRC released a draft of its consultation on a framework of integrated reporting intended to provide guidelines on communication with stakeholders.³² The IIRC's proposed framework addresses the fundamental concepts of integrated reporting and its guiding principles in relation to an organization's strategy, governance, performance and prospects. The 2013 *Global Corporate Sustainability Report* released by the United Nations Global Compact reviews the actions taken by companies worldwide in advancing their business sustainability.³³ The report uses the 10 principles of sustainability and proposes a model to be adopted as a benchmark in assessing corporate sustainability actions and performance. The report presents the responses of 2,000 companies in 113 countries regarding their sustainability progress and challenges. The key findings of the 2013 *Sustainability Report* are (1) companies are taking proper actions to achieve sustainability performance as evidenced by 65 percent of signatories committing to

sustainability at CEO level, and about 35 percent having trained their managers to integrate sustainability into their strategies and operations (2) large companies are leading the way toward sustainability performance and integrated reporting while small and medium-sized enterprises (SMEs) still face challenges to achieve sustainability (3) supply chains are a roadblock to the achievement of improved sustainability performance (4) companies are moving forward with a focus on the achievement of all dimensions of sustainability performance from education to poverty eradication, employment growth and climate change.³⁴

An accountability assurance principle means conducting business in an ethical and socially responsible manner. A proper assurance process requires timely and deliberate planning, aggressive actions, effective implementation, enforceable accountability, continuous monitoring and independent third-party assurance on the sustainability reports. Assurance on sustainability reports lends incremental credibility and objectivity to sustainability performance information provided by business organizations. Sustainability assurance can be provided by third-party assurance providers, public accounting firms and internal auditors, as discussed in chapter 5.

In addition to a few mandatory sustainability guidance established in Asia and Europe, there are several voluntary guidelines for sustainability reporting, including the reporting frameworks released by the GRI, the Connected Reporting Framework and the reporting publications of AccountAbility. Currently, sustainability reports are voluntary and (generally) not audited by external auditors. Existing sustainability reports bear different names (green reporting, CSR reporting); serve different stakeholders in achieving a variety of purposes; and vary in terms of content, structure, format, accuracy and assurance. A more standardized, integrated and audited process is required to make sustainability reports on EGSEE performance comparable, commonly acceptable and relevant to all corporate stakeholders. Recently, the provided a comprehensive Sustainability Reporting Framework to enable greater organizational transparency.³⁵ In 2013, the International Integrated Reporting Council developed the International Integrated Reporting Framework, which provides guidelines for companies to integrate financial and non-financial performance information to benefit all stakeholders.³⁶ On May 15, 2014, the European Parliament issued a new directive that requires listed companies to disclose information on their environmental, social and diversity initiatives in addition to financial information on economic performance.³⁷ It is expected that companies in other countries will follow suit and, in the near future, sustainability reports will reflect both financial and non-financial information relevant to all five EGSEE dimensions of sustainability performance and assurance will be provided on these reports to enhance their credibility and reliability.

The value relevance of sustainability reports measured in terms of objectivity, transparency, reliability, usefulness and credibility are important to both internal and external users of reports. Assurance providers play an important role in enhancing the roles of sustainability reports. Sustainability assurance can be provided internally by internal auditors or by external assurance providers. While internal auditors are well qualified to assist management in the preparation and assurance of sustainability reports, external users of sustainability reports may demand more independent and objective assurance on the reports. This type of assurance can be provided by certified public accountants (CPAs), professional assurance providers or equivalent accredited individuals, groups or bodies. Existing auditing standards are intended to

provide reasonable assurance on financial and internal control reports prepared by management. However, the degree of reliance placed on non-financial information such as sustainability reporting has not been well established. Assurance standards on different dimensions of sustainability performance reports vary in terms of rigor and general acceptability. Assurance standards on other dimensions of sustainability including governance, ethics and social and environmental standards are yet to be fully developed and globally accepted.

In the United States, the Delaware Certification of Adoption of Transparency and Sustainability Standards Act (“the Act”) was signed into law on June 27, 2018.³⁸ The Act becomes effective on October 1, 2018 and represents Delaware’s initiative to support sustainability practices by enabling Delaware-governed entities to disclose their commitment to CSR and sustainability. It reflects Delaware’s recognition that sustainability is a business imperative rather than a greenwashing and should be integrated into the business environment and corporate culture in promoting innovation and long-term financial growth, societal benefits and environmental protection. The Act is intended to demonstrate a firm commitment to sustainability and a proper response to the increasing calls from investors, customers and clients for greater transparency in sustainability practices. The Act is voluntary and applies only to those Delaware-law governed entities that seek to become certified as reporting entities, and gives much flexibility to entities to develop their own sustainability strategies and practices in meeting their sustainability goals and needs. However, there are several mandatory features of the Act that require the entity’s governing body to approve its standards and assessment measures, and those standards and measures to be made publicly available. The Act also recommends that sustainability practices be addressed at the highest levels of the organization. The 2018 Delaware Act is a voluntary disclosure regime requiring adopting entities to provide reports on their sustainability and related standards and metrics.

Around the world, there is an increasing trend toward issuing sustainability reports. Europe has led sustainability reporting practices, starting in 2011. However, Asian countries started to catch up from 2013, reaching their peak in 2015.³⁹ The improvement of sustainability reporting in Asia is attributable to the efforts of various regulators such as those from stock exchanges, industry and financial sectors.

11. PROFESSIONAL ORGANIZATIONS INFLUENCING SUSTAINABILITY

Sustainability promotes long-term profitability and competitive advantage; helps maintain the wellbeing of society, the planet and people; and creates value for all stakeholders. Global authoritative standard-setters, including the IFAC, the GRI, the International Integrated Reporting Council (IIRC), the Sustainability Accounting Standards Board (SASB) and the Corporate Reporting Dialogue (CRD) now promote integrated/sustainability reporting. Sustainability reporting measures, recognizes and discloses the five EGSEE dimensions of sustainability performance. The goal of long-term firm value maximization under business sustainability can be achieved when the interests of all stakeholders including shareholders are considered. Regulators, investors and companies throughout the world continue to value a firm’s sustainability performance.

It is expected that integrated reporting will play an important role in future corporate reporting and in rebuilding investor trust and confidence in public financial information. Trust in public company financial reporting has been eroded in recent years. Conventional corporate reporting, based on historical financial information, predominantly focuses on the economic dimension of sustainability performance and short-term value drivers. Integrated reporting provides an opportunity to go beyond this short-term focus on financial performance and enables companies to incorporate both financial and non-financial KPIs in demonstrating their stewardship and social utility, environmental initiatives and simultaneously, economic value. Integrated reporting is a vehicle by which public companies communicate their value creation strategies, decisions, and actions through short-, medium- and long-term performance in all five EGSEE sustainability performance metrics to all stakeholders. It enables business organizations to integrate EGSEE sustainability performance reporting into the mainstream corporate reporting process.

The GRI was launched in 1997 to bring consistency and global standardization to sustainability reporting. GRI initially focused on incorporating environmental performance into corporate reporting with its *Sustainability Reporting Guidelines*, which were published in 2000, 2002, 2006, 2011 and 2013. GRI is now considered the sole global standard-setter in sustainability reporting. The current version, the “G4 Guidelines,” was issued in May 2013. In addition to extra disclosure requirements from the previous version, Version 3.1, G4 expands the scope of disclosures to include the “Ethics and Integrity” element and substantially strengthens “Corporate Governance” measures.⁴⁰ The GRI, in its G3 (initially) and G4 *Guidelines*, promotes sustainability reporting as a standard practice of disclosing sustainability-related issues relevant to businesses and stakeholders.⁴¹ The goal of long-term value maximization is achieved when all stakeholders’ interests are considered. The main focus is on long-term shareholder value creation and maximization while considering tradeoffs among other apparently competing and often conflicting interests of society, creditors, employees and the environment. The various dimensions of sustainability performance are related. The economic and other sustainability performance dimensions are complementary because a firm that is effectively governed, that behaves ethically and that commits to social and environmental initiatives is also sustainable while generating long-term financial performance. Although the primary goal of many corporations will continue to be enhancing shareholder value by producing sustainable economic performance, they must also effectively deal with ESG issues to ensure value is added for their shareholders and other stakeholders.

Important principles of integrated reporting being developed by IIRC are: (1) ensuring that corporate strategy is articulated well as a core part of the report, (2) connecting all parts of the business as a whole, (3) making information concise and easily readable, (4) being future oriented and inclusive of multiple stakeholders and (5) taking care to provide materiality, value and assurance to the audience of the report.⁴² These principles help companies understand the importance of integrated reporting and its effect on their businesses. More can and will be added in due time as the IIRC works with companies to further develop best practices. The fourth generation (G4) of the GRI *Guidelines* covers economic, governance, social and environmental performance.⁴³ The GRI reporting process enables organizations to disclose self-declared sustainability information based on one of three application

levels (A, B or C) depending on the extent of information provided. The GRI initially focused on a triple bottom line of economic, social and environmental performance with Version 3.1 (G3) of its sustainability framework. In its *G4 Guidelines*, the GRI promotes sustainability reporting as a standard practice of disclosing sustainability-related issues relevant to companies' businesses and their stakeholders.⁴⁴ The *G4 Guidelines* present Reporting Principles, Standard Disclosures and an Implementation Manual for sustainability reporting on economic, governance, social, ethical and environmental performance (EGSEE) by all organizations regardless of their type, size, sector or location.⁴⁵

The Sustainability Accounting Standards Board (SASB) establishes and creates sustainability accounting standards suitable for developing measures to disclose material sustainability issues for 88 industries in 10 sectors. The SASB suggests the process for mandatory filings to the US Securities and Exchange Commission (SEC), such as Forms 10-K and 20-F, through the first quarter of 2015. The SASB's primary concern is to establish standards that enable peer-to-peer comparison between companies which can be useful for investment decisions and allocation of capital.⁴⁶ In June 2011, the Global Initiative for Sustainability Ratings (GISR) developed environmental, social and governance (ESG) ratings standards with an eye toward maximum harmonization with leading complementary standard-setters, most notably the GRI, the IIRC,⁴⁷ the Carbon Disclosure Project (CDP) and SASB.⁴⁸ Harmonizing SASB standards with existing disclosure standards avoids additional reporting costs for companies and aligns the SASB's work with global corporate transparency efforts. In April 2013, the IIRC released the draft of its consultation on a framework of integrated reporting intended to provide guidelines on communication with stakeholders.⁴⁹ The IIRC's proposed framework addresses the fundamental concepts of integrated reporting and its guiding principles for an organization's strategy, governance, performance and prospects. The products of the SASB, GRI and IIRC can be used in complementary ways for the development of a sustainability report for investors and all stakeholders. The SASB provides standards for mandatory filings, whereas GRI and IIRC provide frameworks for voluntary reporting.

12. BEST PRACTICES OF SUSTAINABILITY PERFORMANCE, REPORTING AND ASSURANCE

Sustainability performance, reporting and assurance evolves as investors demand more relevant sustainability disclosures, regulators require more extensive sustainability reports and business organizations integrate sustainability into their strategic decisions, actions and performance. Along with the evolving process, best practices of sustainability performance, reporting and assurance are being developed. According to greenbiz.com and UPS, there are five ways to convey the vital importance of sustainability to senior executives:⁵⁰

1. Sustainability enables cost reduction and efficiency improvement.
2. Sustainability incentivizes organizations to focus on risk assessment, management and mitigation (financial, operational, compliance, strategic and reputational risks).

3. Sustainability creates new competitive and revenue-generating opportunities.
4. Sustainability encourages innovation.
5. Sustainability promotes talented employee recruitment, development and retention.

A recent report by the Conference Board presents many cases in which non-financial GSEE sustainability actions and performance have had a positive impact on financial performance.⁵¹ The report also highlights the importance of establishing the links between financial and non-financial GSEE sustainability by adopting relevant KPIs. Sustainability information on GSEE is typically considered an externality, beyond the disclosure of economic performance, which may have positive or negative consequences as viewed by market participants. Examples of positive externalities are board independence and diversity, majority voting, environmental initiatives regarding climate change, customer satisfaction, job creation and fair employment.⁵² Examples of negative externalities are CEO duality, natural resource depletion, pollution and human rights abuses.⁵³ In disclosing their externalities in terms of strengths and concerns, firms tend to over-emphasize positive externalities and under-emphasize concerns as incorporated into the ESG scores.

13. MANAGERIAL IMPLICATIONS OF SUSTAINABILITY PROGRAMS AND ACTIVITIES

Business organizations worldwide are now recognizing the importance of quality as it relates to sustainability performance and the link between profitability and sustainability. Justifications for a focus on sustainability strategies and performance are moral obligation, maintaining a good reputation, ensuring sustainability, license to operate and creating shared value. In a shared value approach, corporations identify potential social issues of concern and integrate them into their strategic planning. There are many sustainability factors that a company should consider, for example, pressure from the labor movement, development of moral values and social standards, development of business education, change in public opinion about the role of business and corporate responsibility to society and the environment. Companies which are, or aspire to be, leaders in sustainability are challenged by rising public expectations, increasing innovation, continuous quality improvement and heightened social and environmental problems. Businesses should fulfill their social and environmental responsibilities for reasons such as public image, consumer movements, government requirements, investor education, tax benefits, better relations with stakeholders, employee satisfaction, a sense of pride and an appropriate way to improve quality.

Asian firms have been seen to juggle economic prosperity, social responsibility and environmental management, as well as to incorporate them with their businesses, stakeholders and society at large. It is seen that the integration process is a rather systematic and yet complex task for managers to handle. This poses a problem for Asian companies as it is seen that their CSR initiatives lack coherent sustainability strategies that align with the firms' objectives. Currently, CSR initiatives are more compliance-oriented. Sustainability initiatives with complete data-based technologies will be able to measure the expectation and performance of CSR initiatives.

This will emerge endogenously, becoming more relevant within firms in the future as the region grows and expands. The challenge of a unified system and controlled environment still lingers in sustainability reporting as firms still collate data using Excel spreadsheets. This does not make the figures or the process wrong, but it is not the same as using a screened system to compile and analyze data. A screened system is a system that shows which sustainability data is reported and where the data is stored. Such a system will do a better job of comparing performance for specific periods and make analysis seamless.⁵⁴

14. CONCLUSIONS

Business sustainability requires organizations to focus on achieving all five EGSEE dimensions of sustainability performance by taking initiatives to advance social good beyond their own interests and compliance with applicable regulations and enhancement of shareholder wealth. Simply put, business sustainability means enhancing corporations' positive impacts and minimizing their negative effects on society and the environment while creating positive impacts on shareholders, the community, the environment, employees, customers and suppliers. The true measure of success for corporations should be determined not only by their reported earnings, but also by their governance, social responsibility, ethical behavior and environmental performance. Business sustainability has received considerable attention from policymakers, regulators and the business and investment community over the past decade and it is expected to be the main theme for decades to come.

In conclusion, the sustainability performance dimensions and related risk, theoretical sustainability frameworks and practical sustainability standards presented in this book should be useful to companies and their management, policymakers and regulators, investors and educators. All theories, including agency/shareholder, stakeholder, signaling, institutional and legitimacy, focus on key measures of sustainable performance such as operational efficiency, customer satisfaction, talent management and innovation, which should all be derived from internal factors of strategy, risk profile, strengths and weaknesses, and corporate culture as well as external factors of reputation, technology, completion, globalization and utilization of natural resources. These theories and standards help in explaining companies' objectives as reflected in management strategies and practices of creating sustainable value for shareholders while protecting the interests of other stakeholders such as creditors, employees, customers, suppliers, government and society.

15. CHAPTER TAKEAWAY

1. Integration of business sustainability to the corporate culture and strategic planning requires identification of all stakeholders, development of strategies and KPIs to create shared value for all identified stakeholders and proper disclosure of sustainability performance.
2. Integrating the five EGSEE dimensions of sustainability performance to management processes enables companies to conserve scarce resources, optimize production processes, identify product innovations, achieve cost efficiency and

effectiveness, increase productivity, promote corporate reputation and create stakeholder value.

3. Effective implementation of all five EGSEE dimensions of sustainability performance is essential in creating sustainability value for all stakeholders.
4. Sustainability managers should understand that shareholder value can be improved by enhancing value creation for other stakeholders.

ENDNOTES

1. Much of discussion presented in this and other chapters of this book come from two books on sustainability recently published by one of the authors. A. Brockett and Z. Rezaee, *Corporate Sustainability: Integrating Performance and Reporting* (New York: John Wiley & Sons, Inc., 2012), and Z. Rezaee, *Business Sustainability: Performance, Compliance, Accountability and Integrated Reporting* (London and New York: Greenleaf Publishing Limited, 2015).
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