

**THE ROLE OF ACCOUNTANTS IN SUSTAINABILITY  
REPORTING AND THE CHALLENGES FACED BY  
THEM IN MALAYSIA**

**BY**

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**A dissertation submitted in fulfilment of the requirement for  
the degree of Master of Science (Accounting)**

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## **ABSTRACT**

Sustainability is responsible growth achieved by striking a balance between economic needs and social and environmental requirements. Sustainability is a lifestyle that is concerned with fulfilling the current human needs (social, environmental, and economical aspects) without harming the needs of the future generation. Sustainability Reporting (SR) is considered a critical monitoring tool used to present a firm's accountabilities to its impacts on the environment and society. This study explores the role of accountants in the SR process and the challenges faced by them in Malaysia. The study used the resource-based view theory to explain how accountants' participation in SR can help organization to generate sustainable competitive advantages for the benefit of all stakeholders. A total of 354 questionnaires were distributed to accountants and people associated with financial reporting in environmentally sensitive sectors. Only 107 responses were received. The data were analysed using descriptive analyses. The results show that over 75% of respondents' companies include the accountants in the reporting process; they also indicate their agreement that accountants should be involved in the process of SR.



## خلاصة البحث

الاستدامة هي نمو مسؤول يتحقق عندما يتم تحقيق التوازن بين الاحتياجات الاقتصادية والمتطلبات الاجتماعية والبيئية. وهي نمط حياة يهتم بتوفير الاحتياجات البشرية الحالية (الاجتماعية والبيئية والاقتصادية) دون إضرار باحتياجات الجيل القادم. ويُنظر إلى الإبلاغ عن الاستدامة كألية إبلاغ رئيسة لتحمل الشركة مسؤولياتها تجاه آثاره أعمالها على البيئة الطبيعية والاجتماعية. تهدف هذه الدراسة إلى استكشاف دور المحاسبين في إعداد تقارير الاستدامة والتحديات التي يواجهها المحاسبون في عملية إعداد تقارير الاستدامة في سياق ماليزيا. استخدمت الدراسة نظرية العرض القائمة على الموارد وتشرح كيفية الاستفادة الجيدة من الموارد المتاحة للوحدة الاقتصادية بجميع أنواعها (مثل المادية والبشرية والتنظيمية) والتي تخلق مزايا تنافسية مستدامة إذا تم استغلالها بطريقة مثالية لصالح جميع الأطراف. تبنت هذه الدراسة طريقة بحث الوضع الكمي حيث تأتي البيانات المستخدمة في هذه الدراسة من الاستبيان الاستقصائي الموزع في عام 2020 إلى 354 محاسباً في الشركات المدرجة في بورصة ماليزيا والتي تعتبر من القطاعات الحساسة بيئياً. أشارت النتائج إلى أن أكثر من 75% من المشاركين في هذه الدراسة أكدوا على إشراك المحاسبين في عملية الإبلاغ عن الاستدامة في مؤسساتهم. كما أنهم يعتقدون بشدة بوجوب الاستعانة بالمحاسبين في عملية إعداد تقارير الاستدامة.

## APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted for any other degrees at IIUM or other institutions.

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Signature  .....

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## TABLE OF CONTENTS

Abstract.....	ii
Arabic Abstract.....	iii
Approval page .....	iv
Declaration .....	v
Copyright Page.....	vi
Acknowledgements .....	vii
Table of Contents .....	viii
List of tables.....	x
List Of Abbreviations .....	xi
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1.1 Background.....	1
1.2 Problem Statement.....	3
1.3 Motivation of the Study .....	5
1.4 Research Objectives.....	5
1.5 Research Questions.....	6
1.6 Significance of the Study .....	6
1.7 Structure of the Study .....	7
1.8 Chapter Summary .....	8
<b>CHAPTER TWO: LITERATURE REVIEW .....</b>	<b>9</b>
2.1 Introduction .....	9
2.2 Sustainability .....	9
2.3 Sustainability Accounting and Reporting .....	10
2.4 Sustainability Reporting in Malaysia.....	14
2.5 The Role of Accountants in Sustainability Reporting .....	21
2.6 The Challenges that Accountants Face in Sustainability Reporting.....	25
2.7 Resource-Based View Theory .....	27
2.8 Resource-based View Theory and the Accountants' Role in Sustainability Reporting in Public Listed Companies in Malaysia .....	28
2.9 GapS in the literature .....	30
2.10 Chapter summary.....	31
<b>CHAPTER THREE: RESEARCH METHOD.....</b>	<b>32</b>
3.1 Introduction .....	32
3.2 Research Design .....	32
3.3 Quantitative Research Design Method .....	33
3.4 Sample Selection.....	34
3.5 Development of Survey Questionnaire .....	36
3.6 Data Collection Process .....	38
3.6.1 Pilot Study.....	39
3.6.2 Main Data Collection Phase.....	40
3.7 Data Analysis Method.....	41
3.8 Chapter Summary .....	42

<b>CHAPTER FOUR: FINDINGS AND DISCUSSION.....</b>	<b>43</b>
4.1 Introduction .....	43
4.2 Overview of Collected Data .....	43
4.3 Demographics Results.....	44
4.3.1 Location .....	44
4.3.2 Work Experience .....	45
4.3.3 Job Title.....	45
4.3.4 Department .....	46
4.3.5 Type of Company’s Activity.....	47
4.4 Descriptive Results .....	48
4.4.1 The Involvement of Accountants in SR.....	48
4.4.2 The Factors Influencing Sustainability Reporting.....	49
4.4.3 Medium of SR .....	50
4.4.4 Perceived Importance of Accountants’ Involvement in SR.....	51
4.4.5 The Role of Accountants in SR from Sustainability Perspective .....	52
4.5 The Challenges Faced by Accountants who do Sustainability reporting .....	53
4.6 Discussion .....	54
4.7 Summary .....	56
<b>CHAPTER FIVE: Limitations, RECOMMENDATIONS AND CONCLUSION.....</b>	<b>57</b>
5.1 Introduction .....	57
5.2 Overview of the Study .....	57
5.3 Limitations and Recommendations .....	58
5.4 Conclusion.....	59
<b>REFERENCES .....</b>	<b>61</b>
<b>APPENDIX: QUESTIONNAIRE FOR THE ROLE OF ACCOUNTANTS IN SUSTAINABILITY REPORTING AND THE CHALLENGES FACED BY THEM IN MALAYSIA.....</b>	<b>74</b>
<b>GOOGLE FORM .....</b>	<b>82</b>

## LIST OF TABLES

Table 3.1 Source of Questions	36
Table 3.2 Samples Participating in the Pilot study	39
Table 3.3 Background Information of the Sample	40
Table 3.4 Companies that Participated in the Study	41
Table 4.1 Respondents' Organization Site	44
Table 4.2 Respondents Work Experiences:	45
Table 4.3 Respondents' Job Title	46
Table 4.4 Respondents' Job Department	46
Table 4.5 Comparison of Type of Company Activity and the Involvement in SR	47
Table 4.6 Respondents' Background	47
Table 4.7 Accountants' participation in SR	48
Table 4.8 Respondents' Involvement in SR	48
Table 4.9 Comparison of Work Experience to the Involvement in SR	49
Table 4.10 Factors Influencing Sustainability Reporting	49
Table 4.11 Reliability of Measurement items	50
Table 4.12 Reporting Medium	51
Table 4.13 Perceived Accountants' Involvement in Sustainability Reporting	51
Table 4.14 Accountants Utilized in Preparing SR	51
Table 4.15 The Role of Accountants in SR	52
Table 4.16 Factors Holding Back Accountants' Involvement in SR	53
Table 4.17 Accountants' Attendance at Training Courses on SR	54

## LIST OF ABBREVIATIONS

SR	Sustainability Reporting
RBV	Resource-Based View
ACCA	The Association of Chartered Certified Accountants
HPC	High-performance Companies
IIRC	International Integrated Reporting Committee
CEO	Chief Executive Officer
GAR	Green Accounting and Reporting
GRI	The Global Reporting Initiative
NVP	National Vision Plan
ISO	International Organization for Standardization
ISE	International Stock Exchange
IISE	Investor Initiative for Sustainable Exchanges
RRM	Reputational Risk Management
SRI	Socially Responsible Investment
IR	Integrated Reporting
CSR	Corporate Social Responsibility
CSRR	Corporate Social Responsibility Reporting
KLSE	Kuala Lumpur Stock Exchange
WBCSD	World Business Council for Sustainable Development
TBL	Triple Bottom Line
SEC	Securities and Exchange Commission
DJSI	Dow Jones Sustainability Index
FASB	Financial Accounting Standards Board
CPO	Consumer Product Organizations
IP	Industrial Product
REIT	Real Estate Investment Trust
TS	Trading and Services
PLCs	Implement Environmental Management Accounting
EMA	Environmental Management Agency
EMS	Environmental Management System
NEDs	Non-Executive Directors
CFOs	Chief Financial Officers
VRIN	Valuable, Rare, Inimitable, and Non-Substitutable
IT	Information Technology

# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND

Sustainability is a significant concept of growth that is achieved when a balance is struck between economical needs and social and environmental requirements. Sustainability is a lifestyle that is concerned with catering to current human needs without harming the needs of the future generation (White 2009). The World Commission on Environment and Development (WCED) introduced the concept of sustainability as meeting our own needs without compromising the ability of future generations to meet their own needs. In addition to natural resources, we also need social and economic resources. Sustainability is not just environmentalism, its a responsibility of companies with close collaboration among the stakeholders, for its social, environmental, ethical, human rights, consumer issues and core strategy (2013, p.1).

At the business level, the concept of sustainability is often linked to environmental efficiency of a companies' activites, especially in the last three decades (Dyllick and Hockerts, 2002). Applying the sustainability development approach in a company would minimise the effects of the companies' activities to secure life on earth and achieve the goal of satisfying stakeholders from different aspects (Çalışkan, 2014).

A survey conducted by Boston College Center for Corporate Citizenship and Ernst & Young in 2013 on the advantages of embedding sustainability issues in companies' reporting, shows that there are seven major business benefits. It is found that there are more opportunities than risks in reporting sustainability, 50% of the respondents' companies saw that SR strengthens their corporate reputation in the markets, proving that SR is a powerful tool for corporations to build trust around their business and benefit from communicating transparently to the public, and it reduces the negative social influence and benefits society at large. In that survey, companies recognize that SR improves their innovation, reduces waste, and enhances market position as well as financial performance and market share. Moreover, 30% of the respondents saw increased employee loyalty as a result of issuing a sustainability report.

Reporting firms may be better able to predict and manage risks emanating from sustainability-related dimensions of the business.

Furthermore, investors increasingly prefer to invest in transparent firms due to higher stakeholder-manager trust which eases access to capital. Companies revealed that SR contributes to cutting costs, similar to results of a previous study (Smith et al., 2007).

SR is considered as a critical reporting mechanism to present a firm's accountabilities of its business impact on the environment and society (Williams, 2015). Most of the previous studies in Malaysia and around the world have focused on addressing multiple aspects of SR. However, only a few studies have discussed the accountants' role in the SR process (Williams et al., 2010; Çalışkan, 2014; Egan and Tweedie, 2018), although SR is one of the essential tools used by accountants to produce reliable and meaningful reports that present the company's activities and outcomes to stakeholders (Botes et al., 2014). In relation to this, it has been argued that the lack of knowledge and understanding of SR among accountants may have limited their role in SR (Williams et al., 2010; Çalışkan, 2014; Egan and Tweedie, 2018).

Hence, there is a gap between the accountants' actual participation and their potential for involvement in SR. There is a clear lack of identifying the relationship between the concept of SR and accounting, and a possible way to overcome the barriers that pose difficulties for accounting professionals. This study is a replication of a study conducted by Williams (2015), but from the point of view of accountants in listed companies in a developing country, such as Malaysia. To the best of the researcher's knowledge, no other study has been undertaken on the role of accountants in SR and the challenges they may face in the SR processes in Malaysian companies.

Malaysia is considered as one of the fastest-growing economies in the Association of Southeast Nations (ASEAN) (Mokhtsim and Salleh, 2014), and therefore, the continuous economic growth has led to a steady increase in environmental degradation, climate change and a depletion of non-renewable resources, in addition to various social and economic challenges (Buniamin et al., 2011; Zainal et al., 2013a).

Considering the above, it is worth exploring the role of accountants in SR in the Malaysian context in order to determine their level of participation in SR and their perceived role in further sustainable development. This study explores the challenges faced by accountants during the SR process. From the perspective of the resource-based view (RBV) theory, more participation of accountants in SR can lead to producing more accurate sustainability reports, which in turn, can improve firms' competitive advantage (Mohd et al., 2012).

This study adopts the quantitative research method. Data was collected from a questionnaire survey distributed to 354 public listed companies (PLCs). The study focuses on five sectors, identified as more sensitive to the environment, namely Construction, Property, Plantation, Energy and Chemical Industrial Products. Environmentally Sensitive Industries (ESI) refer to industrial companies whose activities are classified as affecting the surrounding environment or increasing potential environmental risks, such as pollution, climate change and carbon emission (Manaf et al., 2006).

## **1.2 PROBLEM STATEMENT**

It has been argued that accounting should be used to create a sense of accountability for companies to serve public interests, including the pursuit of sustainability. Gray et al. (1993) stated that accountants, as the financial backbone of a company, have a major role to play in environmental issues, and that the accountants' job scope must change in tandem with the consequences of environmental management issues that they will need to be involved in as business managers and financial record keepers. More specifically, the conventional accounting practices that emphasize on only recording financial transactions to maximise the shareholders' value, are no longer accurate and effective for companies' performance measurement. As the global awareness of the importance of sustainability issues has increased tremendously over the last few decades, the inclusion of non-financial information in business decision-making as well as reporting, is as important as financial information. In terms of environmental sustainability, long-term efforts are critical for SR to help companies carry out their business differently. This is because what gets measured, gets managed. The

accountants can play their role in promoting and reporting sustainability-related information, such as by using their skills of aggregating data into useful information, helping with cost analysis of environmental decisions, and getting involved in the audit and assurance of corporate social reporting (Ahmad et al., 2020). In addition, the accountants must be well-versed in the application of standards for reporting, and their skills in this area can be applied in the reporting of a company's sustainability performance. The reporting systems can be improved by incorporating environmental and social information, which could be used for both external and internal reporting purposes (Birt et al., 2020). This could then be extended to the collection, analysis, and reporting of non-financial information.

In Malaysia, the government is very concerned with building a sustainable economy and protecting the environment, which can be seen through Malaysia's Plans and development policies, such as the National Vision Plan (NVP) and Vision 2020. Adding to the government's sustainability efforts, Bursa Malaysia, through its "Reporting Guideline", requires all public listed companies to track their business impacts on the environment, society and the economy (Sustainability Reporting Guide, 2018).

However, despite the need for a report that provides accurate and clear information about the company's impacts, the information provided by companies, especially environmental-related information and sustainable development support, is far from sufficient (Sawani et al., 2010; Zainal et al., 2013b, Abd-Mutalib et al., 2014; Zainuddin, 2014). Given that there is an apparent lack of research in the developing countries on the accountants' role in SR (Zainal et al., 2013b), this study is motivated to fill the gap by examining the role of accountants in the SR process of environmentally sensitive companies.

It is apparent that companies, such as those in the construction, industrial products, and chemical sectors, must be more responsive to the government's sustainability efforts due to the nature of their business that has a negative impact on the environment. In addition, a recent study by Ahmad et al (2020) found that companies in environmentally sensitive industries have minimum SR practices, and therefore, it is reasonable to assume that the level of accountants' participation in SR is likely to be

low. Incapable of utilizing the accountants' skills in SR leads to a low quality of reporting, hence limiting the company's competitive advantage. According to the RBV theory, the accountants' skills as internal resources must be utilized in order to produce a high-quality sustainability report which will create a competitive advantage for the company (Almarri and Gardiner, 2014). Therefore, this study seeks to examine the accountants' level of involvement in the SR process of Malaysian public listed environmentally sensitive companies.

### **1.3 MOTIVATION OF THE STUDY**

The importance of SR comes from the importance of sustainability itself. Previous studies in Malaysia have focused more on corporate social responsibility (CSR) and environmental disclosure in comparison to financial performance reporting (Smith et al., 2007; Ahmad et al., 2013; Zainal et al., 2013; Bakar et al., 2019). Furthermore, some studies have indicated that there is a low level of awareness and the absence of legislative pressure to implement SR (Sawani et al., 2010). According to Zainal et al., (2013b); Egan and Tweedie (2018); and Ahmad et al. (2020), there is an apparent lack of research in the developing countries on the accountants' role in SR. Therefore, the present study explores the accountants' role in the SR process from the perspective of environmentally sensitive industries.

### **1.4 RESEARCH OBJECTIVES**

The research objectives are:

**RO1:** To examine the role of accountants in environmentally sensitive companies in the sustainability reporting process.

RO1a: To examine whether the accountants are involved in sustainability reporting.

RO1b: To examine the perceived importance of accountants' involvement in sustainability reporting.

**RO2:** To examine the challenges faced by the accountants in the sustainability reporting process.

## **1.5 RESEARCH QUESTIONS**

To achieve the research objectives, the following questions are formulated:

RQ1: Are accountants involved in the sustainability reporting process?

RQ2: Should accountants be involved in the sustainability reporting process?

RQ3: Do accountants face challenges in the sustainability reporting process?

## **1.6 SIGNIFICANCE OF THE STUDY**

Previous studies have argued that the accountants' role in the SR process is important in order to have clearer and more meaningful reporting. This study contributes to the body of existing literature by providing evidence on the accountants' involvement in the SR process of environmentally sensitive companies. Should the results suggest a low involvement, it can be used to inform the accountants or companies generally to improve their understanding of the impact that sustainability issues have on business reporting. It can also be used to signal for a future refinement of the current reporting requirement.

With regards to the challenges faced by accountants in the SR process, the results can be used to recognise the issues that make the accountants hesitate to participate in the SR process. Should the results suggest lack of awareness or minimal exposure to sustainability issues/education among accountants, perhaps these can be addressed through the improvement of university education, and/or active promotion and engagement from the professional accounting bodies, like the Malaysian Institute of Accountants (MIA) .

Lastly, the study employs the RBV theory to examine the involvement of accountants in the SR process. The study contributes by looking at whether or not companies utilise the accountants' skills to produce high quality SR.

## **1.7 STRUCTURE OF THE STUDY**

There are five-chapters in this study.

### **Chapter 1: Introduction**

This chapter highlights the fundamental concepts of the study, the background of the study, the problem statement, the motivation, the research objectives and questions, and the significance of the study.

### **Chapter 2: Literature Review**

The chapter discusses the concept of sustainability and SR, the history and application of sustainability accounting in Malaysia, the role of accountants in SR, the challenges they face, prior studies on SR, as well as the gaps in extant studies, which this current study covers. The theoretical framework of the study is also discussed in this chapter. The theory used in this study, i.e., the RBV theory and the advantages of accountants participating in SR, are explained.

### **Chapter 3: Research Methodology.**

The chapter introduces the methods used in the study. It explains the research design, sample selection, data collection procedures, as well as data analysis method.

### **Chapter 4: Findings and Discussion.**

The chapter presents a comprehensive overview of the analyzed data results and discussion of these results.

### **Chapter 5: Limitations, Recommendation and Conclusion.**

The chapter provides the summary, conclusion, limitations, the results and suggestions for future research.

## **1.8 CHAPTER SUMMARY**

This chapter presents and discusses the background of the study. The chapter also presents the problem statement, motivation of the study, research objectives and research questions, significance of the study, and the summary of chapter.



# **CHAPTER TWO**

## **LITERATURE REVIEW**

### **2.1 INTRODUCTION**

This chapter presents a review of prior related studies. The chapter is structured as follows. Section 2.2 provides an overall view on sustainability. Sustainability accounting and reporting is in section 2.3, with more details in section 2.4. Section 2.5 provides insights into the accountants' role in sustainability, in addition to investigating the challenges that accountants face during the SR process in section 2.6. Sections 2.7, 2.8, and 2.9 present the RBV theory, the role of accountants in SR and the RBV theory, and the theoretical framework of the study, respectively.

### **2.2 SUSTAINABILITY**

Previous environmental reporting literature has provided evidence of an increasing awareness and trend for companies to report environmental information pertaining to the importance of addressing sustainability issues around the world (Llena et al., 2015; KPMG, 2015; Bennett et.al., 2017). The SR process plays a vital role in reformulating the meaning of competitive value added to the firm more than any other time since 1980s (Allen White, co-founder, and former CEO of GRI). SR is seen as a key reporting mechanism to present the firm's accountability report in terms of its impact on the environment and society (Williams, 2015). SR is considered as one of the most important tools of accounting, which can be used by accountants to present the outcome of firm's activities to the beneficiaries of such reports such as the management, investors, and governments.

Corporate sustainability became a popular social sciences area of study in the mid-1900s. The focus was mainly on how sustainability can be used for human welfare and how it can protect the environment from activities that result in unregulated productions, like resource degradation and pollution, and the other harmful impacts of business activities. In the 2000s, SR became an important instrument and a strategy of

business organizations to manage their productive efforts with regards to the environment and their surrounding societies (Christofi et al., 2012).

Growth in a broader sense can be defined as sustainability as it is achieved by maintaining a balance between economic needs of the organization and requirements of environment and society. According to Williams (2015), sustainability is a lifestyle that provides current human needs (social, environmental, and economical) without harming the needs of the future generations.

Sustainability is defined by the European Union (2011, p.6) as the responsibility of the enterprises their impacts on the environment and the society in close collaboration with the stakeholders, to integrate social, environmental, ethical, human rights, and consumer concerns into their business operations.

SR is crucial. SR helps firms to assess their responsibility toward environmental and social issues, set sustainable goals, and enable firms to track the progress of their goals. More and more environmental and sustainability reports have been published by several businesses, showing concerns about these corporate acts and the opportunities that SR generates for businesses.

### **2.3 SUSTAINABILITY ACCOUNTING AND REPORTING**

According to the World Business Council for Sustainable Development (WBCSD), a good sustainability report has several advantages for businesses, such as reducing business risks, enhancing opportunities, achieving sustainable development by consolidating the principles of governance, and providing a sustainable environment and economy. In addition, long-term growth will enhance the firm's relationship with the stakeholders.

Gray (2010) presented a report on sustainability accounting showing that: "The emergence of sustainable development has been an increasingly complex concept for addressing social and environmental issues, whether at the political, human or

institutional levels” (2010, p. 35). An important issue is to ensure that sustainability does not depend any longer on the process of traditional practices.

For the long-term sustainable growth of the economy and society, corporate sustainability is essential. Accounting and monitoring can be critical triggers for corporate sustainability management. The gap between corporate sustainability and sustainable corporate growth is expressed in the ISO 14031 environmental standard: "Given the broad and ambitious goal of sustainable development in general, corporate sustainability is a challenging concept which requires operationalization". The report questions the relationship between accounting, and whether reporting is led by accounting or accounting should be led by reporting (Schaltegger et al., 2006).

SR can be a comprehensive method to draw different stakeholder groups and control them (Cahyandito et al., 2005). The authors conclude that the ideal SR does not have a single recipe. Moreover, there is a need for both critical and facilitative research to recognize some of the interests and pressures that already affect the approaches in the field. Sustainability accounting has already been debated over for the past 10 years (Schaltegger and Burritt, 2010). Hopwood (2009) focused on various issues arising from accounting for carbon pollution and corporate environmental reporting and provided a review of some aspects in which accounting and other calculative processes have been involved with regards to environmental issues.

The Global Reporting Initiative (GRI) in 2011 defines SR as: “The practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development”.

Business sustainability requires both reporting and action. Strategy can help businesses understand the impact of internal and external forces on their enterprises. In 2009, the International Stock Exchange (ISE) set up an Investor Initiative for Sustainable Exchanges (IISE) to increase awareness on the need to have SR as part of corporate governance. Since the introduction of IISE, a total of 180 international laws have been imposed in 45 countries, supporting the idea of embedding SR in corporate governance (Singhal and Dev, 2017).

Some studies have indicated that there are two main perspectives that drive sustainability: the “inside-out” perspective with the measurement of internal performance and management strategic for sustainability development; and the “outside-in” perspective, with requests of external information by stakeholders (Burritt and Schaltegger, 2010; Herzig and Schaltegger, 2011).

Williams et al. (2010), using a mail survey, conducted a study to look at the current state of sustainability in Australian municipal authorities. The 38-question mailing document was sent to all the Chief Financial Officers (CFOs) of local governments in Australia, with a response rate of 35.5 percent. The results of this investigation indicate that sustainability reports have become increasingly important and are almost known as mainstream reporting in the private sector. But the same cannot happen with SR in the public sector. However, SR information has been found in a few reports.

A systematic review of developments in sustainability accounting was done by Burritt and Schaltegger (2010) with the aim of analyzing the most recent trends in sustainability accounting research; they found that management decisions lead to creating responsible sustainability practices by solving problems, keeping scores, and developing a critical approach to knowledge building.

A comparative study was done by Bellringer et al. (2011) aimed to provide insights into the local government’s SR practices in New Zealand. The local governments were asked to participate in SR for purposes of identifying trends in leadership and transparency of sustainability practices; the study found that SR does not tend to be highly motivated by idealism, but by pragmatism and economic rationality.

In the same context, De Villiers et al. (2014) put forth insights into the fast-evolving field of integrated reporting from accounting and clear studies; it underlines many areas in which more research is required to direct policy and practice developments. Theoretical and empirical problems lie in reporting strategies and early implementation of the practice. SR is an emerging field in developed countries as well. Williams (2015) aimed to find weaknesses in local councils in terms of sustainability

and SR methods by interviews, with a total of 18 senior managers in 13 local councils. He found that communication among council staff lacks community engagement.

To study the factors that affect SR and motivate companies to submit sustainability reports, Nazari et al. (2015) explored the role of internal and external variables affecting SR. To assess their effect, a model was developed to incorporate external motivators and internal facilitators. The research used mining industry companies reporting to the Government of Canada on their greenhouse gas emissions. External pressures were established to motivate improved SR of high-polluting industries.

A well-run management structure and a positive tone of the board are crucial for overall successful sustainability business performance. Dienes et al. (2016) showed that corporate size, media exposure, and ownership, are the primary factors of sustainability disclosures. Corporate governance seems to affect only the auditing and environmental commissions. Regarding the quality of SR, Diouf and Boiral (2017) assessed stakeholders' view on quality in SR through the GRI system, particularly those related to socially responsible investment (SRI). SRI experts in Canada pointed out that environmental reporting represents the management techniques used by corporations to highlight positive factors in their sustainability and hide negative results.

Bhatia and Tuli (2018) analyzed and compared business activities in two of the strongest Western Economies in terms of sustainability. They employed descriptive statistics and an unbiased t-test sample to detect relevant comparisons. The study results show that there is a comparable degree of SR in the United States (US) and the United Kingdom (UK). The average mean score for disclosure was 39.1% in the US and 34.5% in the UK. The research offers a foundation and interpretation of the requirement-based rules of sustainability. There were also discussions on the benefits and opportunities of interacting with sustainability.

Investigating the implementation of the GRI, Needles et al. (2016) evinced that high-performance companies (HPC), the GRI, and the International Integrated Reporting Committee (IIRC) companies are in a state of Integrated Reporting (IR) and SR. American businesses have lower compliance with SR and IR practices, and less