

ORGANIZATIONAL SUSTAINABILITY REPORTING AND EFFECT OF GOING GREEN ON SHAREHOLDER VALUE

Gregory S. Kordecki, Clayton State University, gregkordecki@clayton.edu
Maria L. Bullen, Dominican University of California, maria.bullen@dominican.edu

Organizational sustainability has seen increased prominence as strategy organizations formulate to enhance overall stakeholder value. “Sustainability” is a term that historically has been included in organization vision statements, but without significant substantive measures to achieve it. With issues beyond bottom line profitability driving organizational culture shifts, the relationships between overall organization sustainability and stakeholder value are worthy of renewed examination.

Sustainability has become a vital part of competitive business strategies for more organizations as they invest in resources to embrace measures which could lead to long-term competitive advantage. Responsiveness to factors which benefit the environment and social performance has been shown to also create stakeholder value, including Deloitte’s 2007 *White Paper*, where “Companies must undertake sustainability-driven enterprise transformation efforts in order to improve financial, environmental, and social performance.” Deloitte writes of the concept of the “Wholly Sustainable Enterprise” in which an entity drives stakeholder value throughout the entirety of its activities, including products and services, workforce, workplace functions/processes, and management/governance. In order to create consistent long-term value, the traditional definition of “green principles” is extended to incorporate the entire activity base of the organization.

This “green” approach was expected to promote a longer-term profit perspective compatible with a long-term strategic enterprise sustainability planning approach for the organization, rather than a strictly short-term profit perspective—which may neglect maintenance and jeopardize the firm’s human and other resources. Companies that do not pay attention to sustainability issues on multiple dimensions may run the risk of losing a competitive advantage. As noted by Deloitte, companies that are “sustainable” across the entirety of their activity base will drive improved short-term profitability and long-term stakeholder value, while contributing to permanent betterment of social and environmental issues. The argument proceeds further: with the fulfillment of this win-win proposition, these companies will then sustain themselves indefinitely.

According to Burnett, Skousen and Wright (2011) achieving corporate sustainability requires the implementation of management practices that create long-term shareholder value by embracing opportunities and managing economic, environmental, and social development risks. The authors examined the extent to which investors incrementally value the long-run benefits from adoption of eco-effective management. Their results supported their hypothesis that adoption of eco-effective management results in increases in firms’ market valuation, and that those increases persist beyond the current accounting period. As these authors indicate, their study has broad public policy implications with the shift by accountants, managers, and government

policymakers forward to sustainability-- and the reliance on market-based mechanisms to further environmental goals.

Gupta and Benson (2011) examined whether sustainable companies are able to compete effectively in terms of financial performance and attractiveness to investors. They used a sample of firms appearing in the Innovest “Global 100” rankings released annually at the World Economic Forum in Davos, Switzerland. Their empirical results indicated that sustainable companies do not significantly underperform the stock market as a whole. In addition the authors found that these companies are viewed as highly competitive within their industries. We provide a theoretical basis for these results by linking classic corporate strategy and competitive advantage theories to the performance of sustainable enterprises.

Heffes (2010) reported on a survey conducted by Robert Half Management Resources in the fourth-quarter last year which asked financial executives whether they expect their companies' emphasis on green initiatives to increase, decrease or remain the same in the next 12 month. As reported by Heffes, even in an economic downturn the survey found that 68 percent of chief financial officers said they anticipate no changes. Heffes noted that the survey included responses from 1,400 CFOs from a stratified random sample of United States' companies with 20 or more employees. Heffes also reported on another survey, co-sponsored by accounting and consulting firm Crowe Horwath LLP and the Center for Business Excellence (CBE) at Miami University's Farmer School of Business. According to Heffe, this survey found that sustainability initiatives are seen as having significant strategic value to organizations. However the reporting on these initiatives is challenging.

This paper investigates the core concepts of sustainability and the reporting of sustainability in organizations, and analyzes the emerging trends over the past decade. Implications suggest that in paths toward future prosperity, organizations can realize even greater returns following an organization's commitment to sustainability for stakeholder value.

REFERENCES

- Bullen, M. L., Novin, A. M., 2010 Annual Meeting of the Southeast Decision Sciences Institute, Southeast Decision Sciences Institute, Wilmington, NC, "Human Resource Accounting's Role in Organizational Sustainability". (February 17, 2010).
- Burnett, Royce D; Skousen, Christopher J; Wright, Charlotte J.(2011). Eco-Effective Management: An Empirical Link between Firm Value and Corporate Sustainability Accounting and the Public Interest 11 : 1-15.
- Deloitte Consulting LLP (2007). Creating the “Wholly Sustainable Enterprise”
A Practical Guide to Driving Shareholder Value Through Enterprise Sustainability.
Deloitte Development LLC.
- Gupta, Neeraj J; Benson, Christina C. (2011) Sustainability and Competitive Advantage: An Empirical Study of Value Creation. Competition Forum 9 : 121-136.

Heffes, Ellen M. (2010) STRATEGY. *Financial Executive* 26. 2 (Mar 2010): 9.

Henry, K.V. (2012). The FP&A Squad: Financial Agents for Change. *Strategic Finance*. April, 2012, 37-43.

Kordecki, G.S. and Bullard, G. (2012). Sustainability, Social, and Integrative Financial Reporting: Direction and Magnitude for US Companies. *Proceedings of the Annual Conference: Southeast American Accounting Association*, Savannah, Georgia.

LeBlanc B. (2012). Sustainability Rises on the CFO's 'To-Do' List. *Financial Executive*. March, 2012, 55-57.

McCann, J.T. and Holt, R.A. (2011). Sustainable Leadership: A Manufacturing Employee Perspective. *SAM Advanced Management Journal*. Autumn, 2011, 4-14.

Mir, M.Z., Chatterjee, B., and Rahaman, A.S., (2009). Culture and Corporate voluntary Reporting: A Comparative Exploration of the Chairperson's report in India and New Zealand." *Managerial Auditing Journal* Emerald Group Publishing Limited. Vol. 24, No. 7, 2009. Pp. 639-667.

Othman, R. and Ameer, R. (2009). Corporate Social and Environmental Reporting: Where are We Heading? A Survey of the Literature. *International Journal of Disclosure and Governance*. Vol. 6, 4, 298-320.

Youngvanich, K. and Guthrie, J. (2007). Legitimation Strategies in Australian Mining Extended Performance Reporting. *Journal of Human Resource Costing & Accounting*. Vol. 11, No. 3, 2007, p. 156-177.

_____. (2011). Toward Integrated Reporting: Communicating Value in the 21st Century. Discussion Paper. The International Integrated Reporting Committee.