

# Corporate sustainability practices in the financial sector: A multiple case study

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## **Abstract**

Corporate Sustainability practices, reporting, and demands have been more relevant to businesses lately (Carroll, 2021; Ning et al., 2021). There has been growing attention from regulators about promoting sustainability (Espahbodi et al., 2019; European Commission, 2001). According to (Boffo & Patalano, 2020) the growing concern and increased attention to sustainability have been strong in the financial sector. Generally, this sector is considered to have significant power to influence outcomes as it can influence funding and awareness of sustainability issues unlike other industry (Bakken, 2022). And is, therefore, chosen as the focus of this dissertation.

The objective of this thesis is to recognize the links between the motivations, processes, and results of engagement in corporate sustainability practices by companies operating in the financial sector. The study uses a multiple case study method, which is enriched with additional expert interviews conducted with industry experts. In total four interviews were conducted, two with industry experts and two with representatives of companies.

This study finds a strong theoretical justification for sustainability measures creating value for companies. Empirical research proves the importance of the topic. However, there is a gap in literature on specific approaches how to implement sustainability strategies successfully in practice. The implementation and development of common practices in the industry are not yet established. There are significant challenges to overcome, that are hindering companies to implement sustainability strategies. These include a lack of a common understanding of the topic, the challenge in quantifying sustainability, and reliability and comparability of reports published.

**Key words: Corporate Sustainability, Sustainable Development in the Financial Sector, ESG, Challenges of Sustainability, Relevance of Sustainability, Europe**

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## Resumo

As práticas, o reporte e a procura de Sustentabilidade Empresarial têm-se tornado mais relevante para as empresas recentemente (Carroll, 2021). Tem havido um aumento da atenção prestada pelos reguladores para promover a sustentabilidade (Espahbodi et al., 2019). De acordo com (Boffo & Patalano, 2020) esta crescente preocupação e atenção são bastante fortes no setor financeiro. Geralmente este setor é considerado como tendo poder significativo para influenciar resultados, uma vez que influencia os fundos e a importância destes problemas de uma maneira que mais nenhum setor consegue (Bakken, 2022). Como tal, este é o tópico desta dissertação.

O objetivo desta tese é reconhecer as ligações entre as motivações, processos e resultados da participação em práticas de sustentabilidade empresarial pelas empresas no setor financeiro.

Este estudo usou um métodos de múltiplos casos, enriquecido com adicionais entrevistas com peritos da indústria. Foram conduzidas no total quatro entrevistas, duas com peritos do setor e duas com representantes de empresas. Este estudo encontra uma forte justificação teórica entre as medidas de sustentabilidade e a criação de valor para as empresas. A pesquisa prova a importância deste tópico, no entanto, existe um lacuna na literatura sobre como implementar na prática estratégias de sustentabilidade com sucesso. A implementação e desenvolvimento de práticas comuns na indústria ainda não estão desenvolvidas e existem vários desafios para ultrapassar, atrasando as empresas de implementarem as estratégias. Estes desafios incluem a falta de um entendimento do tópico, a dificuldade em quantificar a sustentabilidade, e a confiança e comparação entre os reportes publicados.

**Palavras-chave:** Sustentabilidade Empresarial, Desenvolvimento Sustentável no Sector Financeiro, ESG, Desafios da Sustentabilidade, Relevância da Sustentabilidade, Europa

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**Table of Contents**

- List of Abbreviations..... 6**
- Introduction ..... 7**
- Chapter 1. Corporate Sustainability – a literature review..... 9**
  - 1.1 The significance of corporate sustainability .....9*
    - 1.1.1 Definitions and clarification of terms..... 11
    - 1.1.2 Corporate Sustainability ..... 15
    - 1.1.3 Why Sustainable Development is relevant to businesses..... 15
  - 1.2 Implementation of Corporate Sustainability ..... 17*
    - 1.2.1 Sustainability reporting ..... 23
    - 1.2.2 Greenwashing..... 33
  - 1.3 The effect of corporate sustainability implementation .....37*
    - 1.3.1 Corporate Social Performance..... 37
    - 1.3.2 Relationship between Corporate Social and Financial Performance ..... 38
    - 1.3.3 Business Case for Sustainability ..... 40
- Chapter 2. The state of corporate sustainability in the financial sector ..... 51**
- Chapter 3. Empirical study results: Corporate Sustainability practices in the financial sector ..... 56**
  - 3.1 Research approach and design ..... 56*
  - 3.2 Data collection and analysis ..... 61*
  - 3.3 Interviews with Industry Experts ..... 64*
  - 3.4 Multiple case study findings ..... 73*
    - 3.4.1 Within Case Analysis ..... 73
    - 3.4.2 Cross Case Analysis ..... 78
  - 3.5 Limitations..... 82*
- Chapter 4. Discussion of research findings..... 83**
  - 4.1 The motives behind incorporation of sustainability practices by companies in the financial sector..... 83*

<i>4.2 The sustainability practices of companies in the financial sector.....</i>	<i>85</i>
<i>4.3 Results and challenges of sustainability practices faced by companies in the financial sector .....</i>	<i>88</i>
<b>Conclusions .....</b>	<b>91</b>
<b>Appendix – Interview Protocol .....</b>	<b>93</b>
<i>Appendix I - List of Figures.....</i>	<i>93</i>
<i>Appendix II - List of Tables .....</i>	<i>93</i>
<i>Appendix III - Guiding interview questions (for Multiple Case Study).....</i>	<i>94</i>
<i>Appendix IV - Guiding interview questions (Expert Interviews).....</i>	<i>95</i>
<b>References .....</b>	<b>97</b>

## List of Abbreviations

CFP	Corporate Financial Performance
CS	Corporate Sustainability
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
ECB	European Central Bank
ESG	Environmental, Social & Governmental
EU	European Union
GRI	Global Reporting Initiative
NGO	Non-governmental Organization
PRI	Principles of Responsible Investment
RBV	Resource Based View
SASB	Sustainability Accounting Standards Board
SD	Sustainable Development
SDG	Sustainable Development Goal
SME	Small and Medium Enterprises
SRI	Socially Responsible Investing
TBL	Triple Bottom Line
UN	United Nations

## Introduction

This topic was motivated by the growing importance of sustainability in society, for businesses and consumers (Barnett et al., 2015; Jadoon et al., 2021; Wijethilake, 2017). As corporate sustainability has as many advocates as critics who argue that it is unnecessary, not the responsibility of companies, and a waste of companies' resources (Carroll & Shabana, 2010). Regardless, the number of companies publishing sustainability reports is continuously increasing (Espahbodi et al., 2019) and sustainability efforts are increasingly demanded by investors (Antonic, 2019; Espahbodi et al., 2019) and consumers (Auger et al., 2003). However, greenwashing and manipulations of public opinion have also increased in the face of these increased efforts (Gatti et al., 2019).

The author seeks to investigate why companies engage in sustainability-related activities. Whether they consider it a strategically important value-adding topic that is implemented with a clear strategy and is implemented with a clear strategy or merely consider sustainability as a tool to promote the company in a positive light and create a positive perception of the company. There are copious studies, papers, articles, and books about the importance of corporate sustainability and the benefits it brings to society, as well as companies. More and more companies are proactively engaging in sustainability practices, implementing sustainability strategies, and publishing sustainability reports as proof of their effort, engagement, and performance.

This thesis' aim to recognize the links between the motivations, processes, and results of engagement in corporate sustainability practices by companies operating in the financial sector. Three research questions were developed to reach this goal:

**RQ 1.** *Why do companies in the financial sector incorporate sustainability practices?*

**RQ 2.** *How do companies in the financial sector incorporate corporate sustainability principles in their operational practices?*

**RQ 3.** *What are the results and challenges of engagement in sustainability practices by financial sector companies?*

The study uses a multiple case study method, which is enriched with additional expert interviews conducted with industry experts. This dissertation doesn't disclose the companies' or interviewees' names, to ensure the anonymity of companies, which was a condition for all interviews conducted.

This study identifies a strong theoretical claim of a positive financial impact of sustainability efforts on the overall company's performance. The significant relevance to all companies has been established empirically. Furthermore, it was found that companies have various motivations and approaches towards the incorporation of sustainable practices and the development of sustainable strategies in their businesses. Regardless, one significant motivator has proven to be the strong regulatory pressure in recent years. Despite the well-established relevance and regulatory requirements successful implementation remains a significant challenge for companies. Currently, there is a lack of formal guidelines and processes to guide the transformation in companies which results in companies working on developing individual measures and guidelines to implement individual strategies. Overall, the implementation is yet in the early stages of development, therefore it will be important to observe the developments in upcoming years. For successful implementation in the upcoming years, there are still significant challenges companies need to overcome. One significant challenge is the current lack of measurability of sustainability strategies and implementation. This leads to troubles in reporting and the quality of issued reports as well as reliability and the comparability of progress. Additional challenges are connected to the lack of knowledge and resources companies have available to implement sustainable practices and strategies.

This dissertation first, starts by reviewing relevant literature. Second, the research design is explained. Third, sustainability in the financial sector is introduced, and expert interviews are analyzed to gain a better understanding of the status quo in the industry. The insights gained from the third chapter are further used to enrich the case analysis. Fourth, the multiple case study will be presented. The cases will be analyzed separately and compared. Fifth, the insights gained from literature, expert interviews, and multiple case studies will be synthesized to answer the posed research questions. Lastly, the conclusion summarizes key findings.

## **Chapter 1. Corporate Sustainability – a literature review**

First, terms and definitions will be established, and some basic frameworks will be showcased and the topic will be contextualized. Second, the relevance to companies will be investigated by highlighting the value added for companies by engagement in sustainability practices. Further, the impact on financial performance and the business case for sustainability will be presented. Third, the implementation of sustainability in practice will be considered. Afterward, the accountability for sustainability practices will be investigated by contemplating reporting as a proxy. Lastly, greenwashing through perceived sustainability efforts will be made part of the discussion.

### **1.1 The significance of corporate sustainability**

Corporate Sustainability practices, reporting, and demands have been becoming more relevant and complex to businesses in recent years (Baumgartner & Ebner, 2010; Carroll, 2021; Elkington, 2004; Gerner, 2019; Ning et al., 2021). The popularization and promotion of global Sustainable Development have been pushed by various important players such as the United Nations (World Commission on Environment and Development, 1987), Governments (European Commission, 2001), and NGOs (Garriga & Mele, 2004). The United Nations Brundtland Commission defined sustainable development in 1987 as “meeting the needs of the present without compromising the ability of future generations to meet their own needs.” (World Commission on Environment and Development, 1987). This definition comprises two central topics, namely the need of the present population, especially the essential needs of the poor, and the current limitations we are facing technologically, socially, and environmentally in providing these needs currently and in the future (Ebner & Baumgartner, 2006). This definition is kept broad and is meant to raise awareness and action among various players such as “individuals, voluntary organizations, businesses, institutes and governments” (World Commission on Environment and Development, 1987, p.12). Sustainability is the end goal that is reached through seeking sustainable development (Baumgartner & Ebner, 2010). Many consider sustainability a vague topic (Carroll et al., 2018; Carroll & Shabana, 2010; Garriga & Mele, 2004) with a lot of confusion regarding the definitions (Schwartz & Carroll, 2008; van Marrewijk, 2003). Regardless, the topic has found wide acceptance in business and the academic community (Alshehhi et al., 2018; Carroll et al., 2018; Garriga & Mele, 2004). Garriga & Mele, (2004) further point out the various complexities and interdependencies of sustainability.

Scholars such as (White, 2009) argue that keeping a broad definition of sustainability allows companies to implement sustainable practices and also ensures that it stays relevant to businesses even in challenging times and facilitates practicability. Other Scholars such as Ebner & Baumgartner (2006) argue that this broad definition contributes to “broad and unspecified discussions” (p.1) about sustainability, which is in line with Swanson & College (1995) and Alshehhi et al. (2018). Other scholars such as Elkington (2004), argue that corporate sustainability works only if companies chose to implement it and only if it resonates with their economic reasoning. He further argues that businesses are more crucial than ever before to achieve sustainable development, which is also stressed by (Jadoon et al., 2021). Carroll et al. (2018) argue that the term sustainability is so broad and “rather logical and straightforward “ (Carroll et al., 2018, p.51) that “virtually no one would oppose this as terminology and as a concept“ (Carroll et al., 2018, p.51). There are many more views on whether the definition should be broad or narrow, with are based on reasonable justifications, however, this will not be further detailed at this point as the concept has found wide acceptance in the business and academic community.

Corporate sustainability has yet to yield one fixed definition that everybody agrees on (Carroll et al., 2018; Ebner & Baumgartner, 2006). However, most literature and business actors agree that corporate sustainability goes beyond pursuing financial goals and additionally focuses on corporate performance for social and environmental aspects (Alshehhi et al., 2018). The largest part of the literature acknowledges sustainability on three dimensions, namely economic, environmental, and social (Baumgartner & Ebner, 2010; Dyllick & Hockerts, 2002; Elkington, 2004; Jadoon et al., 2021) The naming of the three pillars vary throughout sources, however, they imply very similar aspects, for clarity reasons and cohesion throughout this thesis the three pillars will be referred to as economic, environmental and social, despite them at times maybe having slightly different names in the referred sources.

These three dimensions (economic, environmental, and social) have been first developed in 1994 by John Elkington (Elkington, 2004), as the triple bottom line. Elkington (1997) argued that businesses were operating based on an economic bottom line and that due to changing environmental trends, and governmental pressures this bottom line should be changed from a single to a triple bottom line. He explains that the social and environmental bottom line should be added and all three should be regarded equally important. The intention

behind developing the Triple Bottom Line (TBL) emphasizes that corporations do not only add economic value but also add or destroy social and environmental value (Elkington, 2004). However, Elkington (2004) also argues that this understanding of corporate sustainability is only a starting point and needs to be further developed. Therefore, throughout time various criticism has emerged such as (Norman & Macdonald, 2004) criticizing that the TBL lacks validity and Schwartz & Carroll (2008) questioning the lacking consideration of businesses' legal responsibilities. The TBL approach is not necessarily academically superior to other theories, frameworks, and approaches, but it was like no other accepted into the real business world (Alshehhi et al., 2018; Barnett et al., 2015; Carroll, 2021), which is why it is also used as a basis for definitions agreed upon in this thesis (see subchapter 1.1.1). The TBL was translated into many initiatives and concepts such as reporting initiatives, GRI (Kaspereit & Lopatta, 2016), and ESG (Abdi et al., 2021). This approach has been used as a guideline to structure reporting on sustainability performance (Kolk, 2003). This approach resonates with the business community as it focuses on the present as well as the future and is perceived as more balanced and less burdensome than traditional CSR (Carroll, 2021).

### **1.1.1 Definitions and clarification of terms**

It is important to differentiate between the concepts of Sustainable Development (SD), Corporate Sustainability (CS) and Corporate Social Responsibility (CSR) as some research use the phrases interchangeably (Carroll, 2021; Carroll et al., 2018; Lu et al., 2021; Muller, 2006) while other scholars argue that SD is the basis for CSR (van Marrewijk, 2003; Zwetsloot, 2003). Others again argue that SD is based on the definition of the UN and the TBL approach (Alshehhi et al., 2018; Dyllick & Hockerts, 2002; Fergus & Rowney, 2005; Jadoon et al., 2021; Payne & Raiborn, 2001; Wheeler et al., 2003). Therefore, are many ways to define each of these three terms so that there are even papers written about it. Ebner & Baumgartner (2006) have analyzed how these terms are used in literature and have attempted to come up with a definition of these phrases and have attempted to put them into relation to each other. In the following, a very brief overview of some opinions on the terms will be provided and definitions will be specified.

#### **1) Sustainable Development (SD)**

Sustainability as a topic originates in the 1980s (Ebner & Baumgartner, 2006). The first official definition of SD was provided in 1987 by the World Commission of Environment and Development (see subchapter 1.1) and further expanded on by

Elkington (1997) when he developed the triple bottom line (see subchapter 1.1). The idea was further extended, by the introduction of the triple bottom line which is being additionally influenced by external factors such as public pressure waves and sustainability revolutions (Elkington, 2004).

After their analysis, Ebner & Baumgartner (2006) and Garriga & Mele, (2004) arrive at the conclusion that SD is the macro-level concept as defined by the Brundtland Commission by the United Nations in 1987 (see subchapter 1.1). However, Ebner & Baumgartner (2006) argue that it is important to note that SD is a general term on a macro level rather than a business level, that goes beyond the TBL approach to SD and incorporates legal, technological, market, societal, cultural, and environmental influences and is, therefore, a broader definition. This is also how this term will be referred to throughout the remaining thesis. As sustainable development is a broad term, it was further refined by scholars for the specific context of the business environment. This thesis will outline those terms and how SD is declined for businesses in the following two parts.

## 2) Corporate Sustainability (CS)

There are significantly fewer scholars that focus on the definition of corporate sustainability, despite it being mentioned in various works (Baumgartner & Ebner, 2010; Salzmann et al., 2005a; Wijethilake, 2017). Nonetheless, Dyllick & Hockerts (2002) consider the term CS as a representation of SD on a business and corporate level, which is based on the TBL model which is in line with Jadoon et al. (2021). Dyllick & Hockerts (2002) define corporate sustainability as “meeting the needs of a firm's direct and indirect stakeholders without compromising its ability to meet the needs of future stakeholders as well.” (p.131). Nonetheless, other scholars such as (Carroll et al., 2018) emphasize that the terms CS and SD are very similar.

After their analysis, Ebner & Baumgartner (2006) arrive at the conclusion that CS defines the micro-level of SD. Also, they conclude that CS is based on the TBL model, with three dimensions of CS, developed by Elkington (1997) which interact and influence each other. This is also how this term will be referred to throughout the remaining thesis. This is also in line with Dyllick & Hockerts (2002) and Jadoon et al. (2021) definition of CS, which consider CS as the corporate perspective of SD and therefore sustainability as a whole.

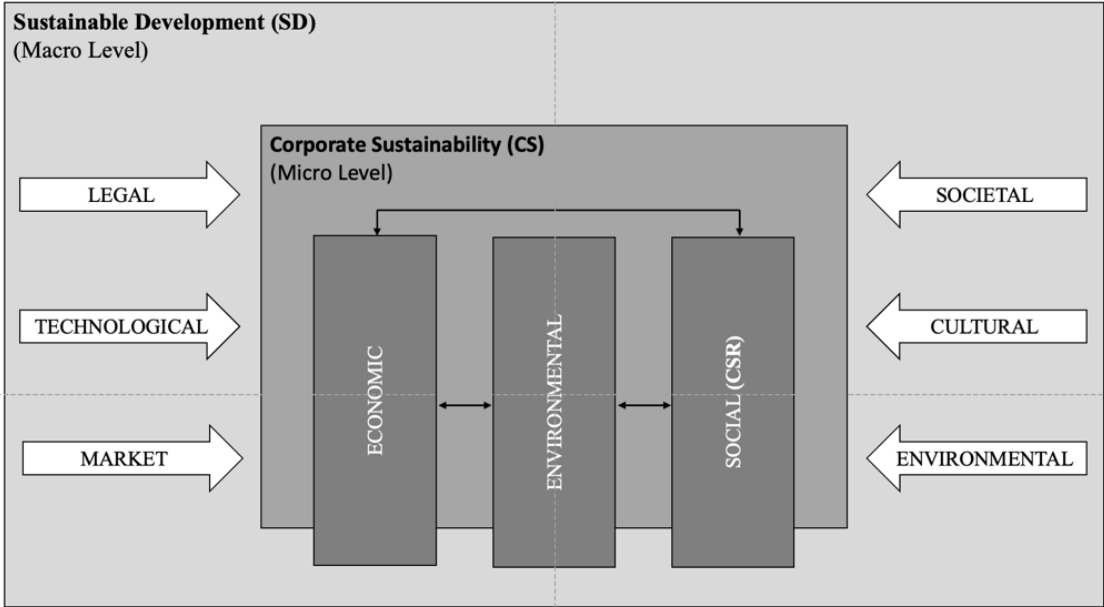
### 3) Corporate Social Responsibility (CSR)

Of the three terms, CSR dates back the longest, as it originates in the 1950s (Carroll, 2021; Carroll & Shabana, 2010), and is, therefore, the most discussed of the three terms (Ebner & Baumgartner, 2006). According to Douglas et al. (2004), one of the first academics to define CSR was Bowen in 1953. According to Carroll et al. (2018), Bowen defined CSR as a company's "obligation to pursue policies to make decisions and to follow lines of action which are compatible with the objectives and values of society"(Carroll et al., 2018, p.43). Since then, the debate on the responsibilities of business and the necessity of CSR has been going on (Carroll, 2021; D. J. Wood, 2010). Which has been fueled among others by Milton Friedman who argues that the sole responsibility of businesses is to maximize the profits of shareholders (Carroll & Shabana, 2010). However, D. Wood (1991) among others disagrees with this view and argues that "the basic idea of CSR is that business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behavior and outcomes" (D. Wood, 1991, p.695). Welford (2005) extends this view as he claims CSR is a business concept for companies to fulfill. Ebner & Baumgartner (2006) argue that "this concept can be seen as a description of the social dimension of SD" (Ebner & Baumgartner, 2006, p.8). Furthermore, they argue that this is in agreement with the World Business Council for Sustainable Development (WBCSD) which "regards CSR as the engine for the social " (Ebner & Baumgartner, 2006, p.3). At the same time, they are considering CSR as a „business' commitment to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life" (Ebner & Baumgartner, 2006, p.3). Moreover, there is an increasing interest of shareholders in companies' CSR and sustainability performance (Antonic, 2019; Cheng et al., 2015).

After their analysis, Ebner & Baumgartner (2006) arrive at the conclusion that CSR "should be used as the social strand of the SD-concept" (p.13) which is also in line with various other scholars (Alshehhi et al., 2018; Barnett et al., 2015; Gauthier, 2005; Welford, 2005). This is how this term will be referred to throughout the remaining thesis. Therefore, CSR is considered a part of CS and also a part of SD.

These definitions according to (Ebner & Baumgartner, 2006) are certainly debatable and are not fixed but for the remaining thesis, the terms will be referred to as defined in the previous paragraphs and graphically represented in Figure 1, as they are the most widely used in practice and the comprehensive way to understand them. Throughout Part 1.1, this thesis has shown how sustainability has been refined for and in the specific context of the business environment through both corporate sustainability and corporate social responsibility and further illustrated by Figure 1. Sustainable development, corporate sustainability, and corporate social responsibility have been proven as intimately linked in a funnel relationship homing in on the way sustainability must be implemented within businesses. Although they are different concepts, they cannot be separated from each other, and further understanding gained within one concept must and should be examined within the scope of the other two, as outlined by the numerous works of literature cited earlier (Alshehhi et al., 2018; Ebner & Baumgartner, 2006; Jadoon et al., 2021; Zwetsloot, 2003). Thus, it can be concluded that literature focusing on CSR, in particular, is relevant for the larger concept of sustainability, as it represents the social responsibility of businesses toward sustainability.

**Figure 1. Connection of Definitions SD, CS, and CSR**



Source: Based on (Ebner & Baumgartner, 2006, p.13)

### **1.1.2 Corporate Sustainability**

To gain a better understanding of corporate sustainability Baumgartner & Ebner (2010) developed a more detailed description of issues and actions included in the three dimensions of CS. For companies to engage in and address sustainability effectively they must address the three distinct dimensions of CS (Figure 1) (Baumgartner & Ebner, 2010).

Economic Sustainability ensures not only that the companies fulfill their basic economic responsibilities which must be considered foundational (Carroll, 2021) which is about creating wealth such as financial income and assets (Carroll et al., 2018).

The environmental sustainability dimension refers to how a company's use of resources and business practices impact the natural environment (Baumgartner & Ebner, 2010) with the importance of protecting and preserving the environment (Carroll et al., 2018). Environmental impacts can be "emissions into the air, into water or ground, as well as waste and hazardous waste" (Baumgartner & Ebner, 2010, p.78) as well as "impact on biodiversity and environmental issues of the product over the life cycle" (Baumgartner & Ebner, 2010, p.78).

The third dimension of CS is the social sustainability aspect that companies should address (Baumgartner & Ebner, 2010). This aspect is about people and people's lives (Carroll et al., 2018). This involves internal as well as external aspects and ensures that companies stay in the market for a long time (Baumgartner & Ebner, 2010). According to Baumgartner & Ebner (2010), internal social aspects include corporate governance, motivations and incentives, health and safety, and human capital development while external social factors include ethical behavior and human rights, no controversial activities, corruption, or cartels, and corporate citizenship.

### **1.1.3 Why Sustainable Development is relevant to businesses**

Sustainable Development (and similar topics) has been an important topic in academia, business, politics, and society for a while now (Carroll, 2021) to which firms are increasing their commitment (Barnett et al., 2015). Specifically, business and society are becoming increasingly attentive to the topic, as neither would have a long-term future without the other (Payne & Raiborn, 2001). This even applies to financial investors who have an accelerating concern for ESG and CSR criteria (Durand et al., 2019). According to Durand et al. (2019), this is further confirmed by the CFA Institute states that "78% of analysts consider ESG

performance for their investment decisions“ (p.1475). Statements as aforementioned strengthen Barnett et al. (2015) claim that sustainability has been seen as a “legitimate part of business activity” (p.64) and Carroll (2021) who argues that according to Strandberg (2002) “strategies such as CSR lite or CSR compliant will become approaches of the past” (p.1271).

This can be seen in current business activity as even “multinational enterprises as diverse as Unilever, Novo Nordisk and Walmart have all tried to link their business models to aspects of sustainability” (Barnett et al., 2015, p.64). This is further supported by (Antonic, 2019) who argues that environmental and social practices are becoming increasingly important to shareholders and institutional investors. This is also implied by Durand et al. (2019) who point out that the “number and importance of sustainability indices has dramatically increased over time” (p.1473) and that financial analysts value companies' CSR activities to a greater extent over time (Ioannou & Serafeim, 2015). Barnett et al. (2015) contribute to this notion as he argues that a “growing cadre of firms regards sustainability strategy not as peripheral but as integral to their long-term success” (p.63).

Furthermore, Carroll et al. (2018) argue that businesses must adapt to rising consumer and shareholder expectations which is further emphasized by Barnett et al. (2015) Alshehhi et al. (2018), and Owen & O’Dwyer (2008). Moreover, these changing consumer expectation and behavior has been increasingly observed with PR Newswire (2016) finding that three quarters (seventy-five percent) of consumer are likely to take actions against irresponsibly acting companies which may be as strong as company boycotts and negative online publications. According to Barnett et al. (2015), this could explain why many firms have even increased their sustainability investments, and have not stopped doing so in economically difficult times. Recent developments like the Covid-19 pandemic have further contributed to the importance of sustainability as has further highlighted social issues and brought them to the “forefront of business and society relationship” (Carroll, 2021, p.1269). Irresponsible acting companies already stood to lose as much as thirty-nine percent of their potential customer base (PR Newswire, 2016) before the pandemic. This is in line with (Barnett et al., 2015) who find that firms are now likely to extend sustainability messages to mainstream advertising. These increasing concerns regarding social issues in society in addition to an increased preoccupation with climate change (Carroll et al., 2018) and government action toward sustainable development (Espahbodi et al., 2019; European Commission, 2001; World Commission on Environment and Development, 1987) resulted in a significant increase in concern toward SD in business.

This makes Sustainability an increasingly relevant topic for businesses globally and demonstrates a “mainstreaming of sustainability” (Barnett et al., 2015, p.64). The relevance and adoption are reflected by the fact that „26 % of global assets are invested using sustainable strategies“ (Antonic, 2019, p.208) and many firms regard sustainability investment strategically (Barnett et al., 2015; Palazzo et al., 2020). Elkington (2004) goes as far as calling developing “a comprehensive approach to sustainable development and environmental protection”(Elkington, 2004, p. 16) a central challenge of the 21st century.

## **1.2 Implementation of Corporate Sustainability**

As the benefits of corporate sustainability have been established theoretically, it will now be considered if and how companies can put this into practice and how they are obtaining these value-added practices.

Implementation of strategies, in general, combines two aspects, the formulation and implementation of the strategy(Mintzberg & Waters, 1985). These require internal as well as external analysis of the situation(Mintzberg & Waters, 1985). According to Engert & Baumgartner (2016) Zahn (1979) claims that corporations are more skilled at formulating strategies compared to implementing them successfully. This is in line with companies’ ability to benefit from sustainability strategies as it appears that firms understand the importance of sustainability and that it is expected of firms to develop and implement sustainability strategies(Baumgartner & Ebner, 2010; Ebner & Baumgartner, 2006; Engert & Baumgartner, 2016; Haessler, 2020; Wijethilake, 2017). Furthermore, firms are willing to pursue sustainability to levels that go beyond compliance with regulations (Wijethilake, 2017). Nonetheless, sustainability is “pursued more coincidentally than with a clear strategy” (Baumgartner & Ebner, 2010, p.76). This is in line with Laufer, (2003) who argues that businesses simply changed their rhetoric instead of changing behavior and strategy. The establishment of a sustainability strategy for companies is generally regarded as important (Calabrese et al., 2012). However, Epstein & Roy (2001) claim that the urgency of the topic and having a sustainability strategy are not sufficient for companies to be able to implement it. There appears to be a gap between the formulation and implementation of sustainability strategy this gap is observed in literature as well as in practice (Engert & Baumgartner, 2016). (Klettner et al., 2014) claim that specifically “case study research would be valuable in assessing how

corporate sustainability strategies are implemented” (Engert & Baumgartner, 2016, p.823). This is in line with Wijethilake (2017) and Arjaliès & Mundy (2013) who point out the gap in the literature about the internal implementation and the “internal managerial process to translate proactive sustainability strategy into corporate sustainability performance”(Wijethilake, 2017, p). This gap in research is also highlighted by Haessler (2020). While more research is needed on the implementation in theory it is important to also bridge this gap in practice. This could be achieved by companies having to translate strategies into action (Epstein & Roy, 2001) this includes developing “appropriate plans, programs, systems, and performance indicators “(Engert & Baumgartner, 2016, p.823) and having clear goals for the strategy (White, 2009). The goal of any strategy is that it improves corporate performance (Baumgartner & Ebner, 2010). Galbreath (2009) argues that companies do not approach sustainability strategically. Engert & Baumgartner (2016) use this to explain the formulation implementation gap. However, (Salzmann et al., 2005) argue that sustainability may not always be suitable for every company at every time, as circumstances vary. What scholars agree on is that choosing a strategy is challenging for companies (Engert & Baumgartner, 2016). Furthermore, D. J. Wood (2010) points out that there is increasing public and industry pressure on companies and that the impact that scandals have on businesses' reputations does not stay limited company but rather affects the entire industry. This likely makes it even more difficult for companies to decide on sustainability strategies, implement them and measure outcomes, regardless of how accepted and understood the issue is.

Despite many firms struggling to implement sustainability, there are numerous examples of firms successfully implementing sustainable practices into their business practices and even into their core values. There is an increase in purpose-driven businesses that emphasize ethics, sustainability, and the creation of value beyond the profitability of firms (Carroll, 2021; Carroll et al., 2018). There are an increasing number of private sector firms that seek to join networks and obtain certifications as sustainable, ethical, or social companies (Villela et al., 2021). For the financial sector, these include initiatives such as the UN-supported network of investors which established the principles of Responsible Investment (PRI) (United Nations, n.d.). Some are even conducting “third-party social and environmental audits of their activities and impacts”(Moroz et al., 2018, p.117). Among these is for example the B Corporation certification through which companies commit to creating value for all stakeholders (Villela et al., 2021). Among the companies with B Corporation Certification are examples such as

Patagonia, The Body Shop, Danone, Ben & Jerry's, and many more (Find a B Corp, 2022). However, there are also companies in the financial sector certified as B Corporations such as Caja Centro, Climate Finance Advisors, or Evergreen (Find a B Corp, 2022). Furthermore, there are already scholars creating competitive sustainability strategies that lead to sustainable competitive advantages with positive environmental and social effects, which are sporadically implemented in businesses (Orsato, 2006).

Furthermore, scholars are researching sustainable business models (Alba & Dentchev, 2021). Another, new concept that is arising from attempts to improve sustainability is the concept of circular economy (Fux, 2019). It predominantly focuses on minimizing environmental aspects that loop production and other business processes in a way that minimizes resource usage and waste products (S. A. R. Khan et al., 2021). The idea of the circular economy is to create a self-sufficient system that offers increasing sustainable returns (Scheel, 2021). It is based on responsible consumption and production (Fux, 2019) and on “ensuring maximum functionality of materials and products” (S. A. R. Khan et al., 2021, p.482). However, this concept is still evolving, and its implementation is “not yet widely spread around the world”(Fux, 2019, p.164).

The existence of these approaches further highlights that sustainability is perceived as an important topic by businesses. However, despite all these attempts to increase sustainability in businesses these are not widely spread or generally accepted, as many are rather extreme approaches that are not perceived feasible for most businesses. Companies that use these advanced measures of sustainability are rather outliers than the norm and are not the focus of this thesis.

Despite there being some outliers, which successfully implement sustainability the majority of firms find it challenging to implement sustainability strategies in a way that results in significant sustainable performance. Companies face various challenges such as that there are no formal processes organizations can follow to become more sustainable and that there is little knowledge about the control mechanisms and performance measurement which are a large barrier to successful implementation (Wijethilake, 2017). Moreover, firms often consider sustainability a tradeoff for profitability (Haessler, 2020). Companies consider profitability their primary task and the financial benefit of sustainability is often unclear (Ball, 2011). This results in managers often choosing profitability over sustainability (Epstein et al., 2015).

Furthermore, the implementation of sustainability strategies requires significant resource commitments and structural changes in the company (Baumgartner & Ebner, 2010). However, firms can't profit from sustainability opportunities if they are not actively searched and pursued (Hart & Dowell, 2011).

As it proves difficult for firms to translate sustainability strategies into sustainability performance scholars have been working on determining success factors theoretically and empirically (Epstein & Roy, 2001; Galbreath, 2009; Klettner et al., 2014; Windolph et al., 2014). There have been varying results, however, some recurring factors have been identified. Firstly, the organizational structure appears to be relevant (Engert & Baumgartner, 2016; Epstein & Roy, 2001; Garriga & Mele, 2004). This includes factors such as “organigram, departments, sustainability boards, sustainability circles, persons responsible for sustainability issues“ (Engert & Baumgartner, 2016, p.828). This factor is important, as sustainability needs to be integrated into the company to be successful across the company, as it does not merely influence one department (Espahbodi et al., 2019; White, 2009). When implementing strategies, the chosen strategy must be suitable for the organization (Engert & Baumgartner, 2016). Further, the culture of the company is important (Barnett et al., 2015; Barney et al., 2001; Engert & Baumgartner, 2016; Galbreath, 2009; Haessler, 2020; White, 2009). A company’s culture refers to the underlying beliefs, values, and behaviors (Flamholtz, 2001). Specifically, this includes “organizational behavior, expectations, and experience“ (Engert & Baumgartner, 2016, p.828). Corporate culture is crucial as it determined the behavior of the actors in the company internally (Bonn & Fisher, 2011). Moreover, leadership plays an important role (Engert & Baumgartner, 2016). This includes “management, personal functions, and visions“ (Engert & Baumgartner, 2016, p.828). As leaders within the company are responsible for the implementation of the company, therefore they must understand the strategy, its importance, and its goals (Engert & Baumgartner, 2016). Another factor needed for successful implementation is managerial control (Engert & Baumgartner, 2016; Haessler, 2020; Jadoon et al., 2021; Wijethilake, 2017; Windolph et al., 2014). Management control includes “management systems, standards, formal guidelines, performance indicators, monitoring, evaluation“ (Engert & Baumgartner, 2016, p.828). Management control is about measuring performance which is difficult (Epstein & Roy, 2001; Noble, 1999; D. J. Wood, 2010). However, these indicators are critical to assessing the performance and impact of sustainability initiatives (Engert & Baumgartner, 2016) and support decision-making (Wijethilake, 2017).

Likewise, Employees, their knowledge and motivations are important (Engert & Baumgartner, 2016). They argue that this factor is underrepresented in previous studies, but that they are crucial, as they are responsible for the implementation of the strategy. Lastly, communication of efforts and successes is important(Engert & Baumgartner, 2016; Gatti et al., 2019; Jadoon et al., 2021). This is true for internal as well as external communication such as sustainability such as internal dialogue with employees and stakeholders or the disclosure of sustainability reports (Engert & Baumgartner, 2016).

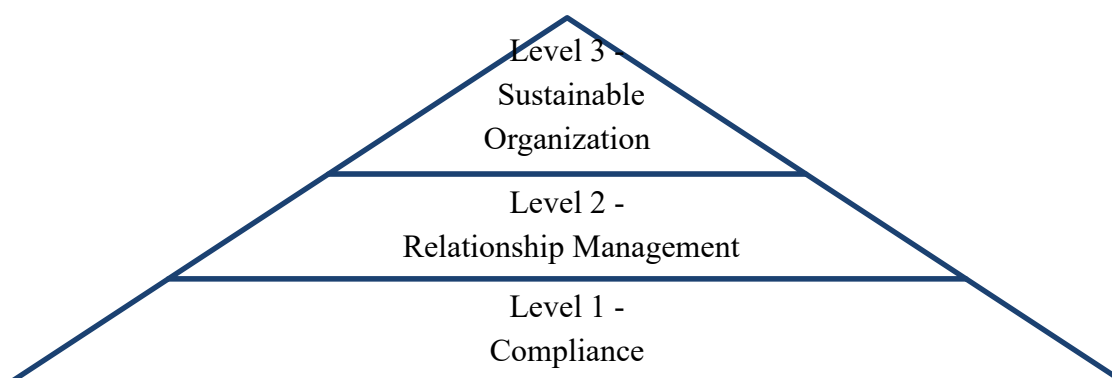
Another aspect that has proven to be effective in practice is partnerships between independent firms (Barnett et al., 2015). Especially, when cooperating across industries companies are likely to benefit from partnerships (Paquin et al., 2015). However, the “effectiveness of cross-sector partnerships for governing global environmental issues depends considerably on whether competitive forces at the firm level are aligned with the collective benefits of partnerships” (Bowen & Aragon-Correa, 2014, p.110) Furthermore, firms with “existing capabilities to facilitate partnerships” (Barnett et al., 2015, p.65), with ideally complementary capabilities(Lin & Darnall, 2015) are most likely to have successful partnerships.

As the research on sustainability is limited the case study about how Proctor & Gamble implemented sustainability will be presented as a successful example. White (2009) describes in a case study how Proctor and Gamble,” a global consumer company with over 300 brands sold in 180 countries” (p.386) integrated its sustainability strategy into the company at all aspects of its business processes and organizational culture. This example shall be described here as an example. White, (2009) argues that already 10 years ago, in 2009 sustainability is such a crucial topic that large companies should consider it their responsibility. Further, he considers sustainability, if integrated into the entire company, to create a business opportunity “to meet new consumer needs, build a top-line business, reduce costs, build employee morale, and deliver greater value to both society in general and shareholders in particular”(White, 2009, p.386). White (2009) considers it central to the implementation of the sustainability strategy that it is integrated into the business culture as well as operations. Further, it is highlighted that implementing such a strategy is implemented over a relatively long time (five years) and that the key is to consider the impact of actions and focus on the ones with the biggest impact.

According to White (2008), Procter & Gamble put a high emphasis on internal communication engagement of employees as well as external communication to stakeholders and their integration in the strategy implementation. White, (2009) points out that the “sustainability journey” is an ongoing process rather than an end goal. However, he points out that for Procter & Gamble it has been crucial to see sustainability as an opportunity, make it part of the everyday work instead of seeing it as added work, have a clear strategy to follow, to incorporate sustainability into their values and to keep a broad definition of the term sustainability.

Another important point to highlight is that it is hard to generalize strategies (van Marrewijk, 2003), as all firms face unique circumstances, and have individual capabilities and resources (Barnett et al., 2020). Therefore, the level of implementation of sustainability may significantly vary among companies. Acknowledging that not all companies are implementing sustainability in the same way Wheeler et al. (2003) developed a three-tier model to consider how companies create value through sustainability. Wheeler's (2003) framework offers three levels of an organization. Level 1 Is Compliance in which the organizations are complying with regulations, laws, and societal norms, but beyond what is required do not engage in sustainability. Whereas in level 2, Relationship Management, companies acknowledge the importance of good relations with various stakeholders and aim to provide appropriate value to stakeholders. Lastly, Level 3 are companies that are sustainable organizations in which “the organization recognizes the interdependencies and synergies” (Wheeler et al., 2003, p.11) between stakeholders and pursues value maximization in all three dimensions of sustainability, economic, social, and environmental.

**Figure 2. Wheelers Framework for Classifying Organizations**



Source: Adapted from Wheeler et al. (2003), p.11

Despite the various levels of implementation at companies, scholars agree that sustainability efforts in the future become increasingly important, and “Strategies such as lite or compliant will become approaches of the past”(Carroll, 2021, p.1271). Companies’ non-financial aspects are becoming more important and firms' strategic focus on sustainability is certain to deliver firms' strategic value over time (Baumgartner & Ebner, 2010).

### **1.2.1 Sustainability reporting**

As the theoretical benefits of sustainability were expanded on and the practical implications of sustainability have been examined, now it will be considered how companies on one hand communicate their sustainability efforts but on the other hand how they are accountable for their actions.

A growing number of firms have been reporting on their sustainability performance in sustainability reports which are “normally issued separately from the annual and quarterly financial reports and describe companies’ investments and outcomes in a variety of activities“ (Espahbodi et al., 2019, p. 149). According to Bartley et al. (2017), a large number of companies already produce sustainability reports. This is due to the increasing global demand for transparency and accountability which continues, and will likely result in an increase in sustainability reporting in the future (Helfaya & Whittington, 2019). Therefore, it is expected that through the emphasis on transparency and accountability the reporting quality and assurance will likely increase (Tian et al., 2016). Sustainability reports “communicate and disseminate information about corporate actions with respect to the interests of both stakeholders and society“ (Stocker et al., 2020, p.2072) and track the sustainability performance of companies through key performance indicators (Bartley et al., 2017). These issued reports are an integral component of corporate communication and commitment to sustainability (Boiral et al., 2019).

Since the 1990’s companies have increasingly publicly disclosed non-financial information and their sustainability practices due to stakeholder pressure (Kolk, 2003; Owen & O’Dwyer, 2008; Windolph et al., 2014). This resulted from times of dissatisfaction in society which led to negative attention of society toward large multinational companies and large protests

following numerous scandals (Helfaya & Whittington, 2019; Kolk, 2003). This is in line with (Garriga & Mele's, 2004) observation that the relationship between business and society is changing. There are various motivations for disclosing non-financial information in sustainability reports (Abdi et al., 2021). The information provided in sustainability reports usually goes beyond compliance with laws and regulations (Espahbodi et al., 2019). Companies increasingly disclose sustainability content online to gain the attention of various stakeholders and manage the company's reputation with external stakeholders (Ning et al., 2021; Palazzo et al., 2020). This is reasonable as "virtually all interested parties desire information on how well a company manages its sustainability performance" (Bartley et al., 2017, p. 109). Antonic (2019) argues that disclosure and transparency around sustainability "can drive a race to the top and reduce overall market risk, creating a rising tide that lifts all boats" (p.213). However, Ning et al. (2021) argue that a company's main interest in reporting is for stakeholder management and additionally, to manage their public relations and "portray the organization in a favorable light" (Owen & O'Dwyer, 2008).

Especially large and visible companies are active in disclosing non-financial reports, which holds globally (Kolk, 2003) while there is "a lack of incorporation of SMEs" (Lu et al., 2021, p.686) are often. According to Antonic (2019), sustainability reporting „has become near-ubiquitous“ (p.212) with "85 percent of S&P500 companies now producing a sustainability report" (p.212). However, there are differences between countries, depending on the level "of regulatory and societal attention" (Kolk, 2003, p.285). and regarding quality and quantity of reporting (Kurucz et al., 2008). An increasing number of governments introduce more laws and regulations (Gatti et al., 2019; Windolph et al., 2014). Nonetheless, sustainability reporting has been criticized for "lacking the rigor of traditional financial reporting" (Antonic, 2019, p.212).

Despite there being various attempts to standardize sustainability reporting (Antonic, 2019) there is not yet one globally applied standard for non-financial reporting (Ferreira Quilice et al., 2018). Regulators face difficulty in balancing "environmental objectives with other social concerns, such as economic resilience" (Barnett et al., 2015, p. 66). Therefore, scholars point out that it is logical that regulators hesitate to generate mandatory standards and rather promote voluntary programs and initiatives (Darnall et al., 2010; Henriques et al., 2012). These standardization initiatives have been increasing and will likely continue to "increase both quantity and quality" (Kolk, 2003, p.289) of sustainability reports.

When Kolk (2003) examined the contents of sustainability reports he found that there is a “wide variety of titles and formats” (p.287) in which 60 percent reported along the dimensions of the TBL (environmental, social, and economic) while the remaining 40 percent reported merely on environmental and social issues. Although, Bartley et al. (2017) argue that the reporting of companies “tends to be dynamic, changing in size and scope from year to year” (p.109) which results in difficulties in determining companies’ sustainable performance and efficiency. This is further highlighted by (Jadoon et al., 2021) who state that “the trustworthiness and reliability of these reports are widely criticized” (p.155). This variability may be due to the combination of the general interest of executives to invest in sustainability and the lack of knowledge on how to implement sustainability (Wijethilake, 2017). This combination is difficult to manage as it could lead to many negative effects as sustainability efforts do not yield returns (Epstein & Buhovac, 2014; Wijethilake, 2017).

### **Current Reporting**

Today sustainability reporting has become “a complex system with more than 300 performance standards and sustainability reporting instruments”(Lu et al., 2021, p. 687). This complexity of standards, tools, and measures is further highlighted by (Tsalis et al., 2020). Regardless of “corporations becoming more and more accountable for their actions”(Lu et al., 2021, p.687), there is still a lack of assurance process (Owen & O’Dwyer, 2008). Furthermore, there is a trust gap between those who issue reports and those who they are supposed to address (Helfaya & Whittington, 2019). Dando & Swift, (2003) call this gap the credibility gap. Scholars (Helfaya & Whittington, 2019) argue that to narrow this gap it would be necessary that “policymakers, standard setters, and environmentalists need to set a commonly agreed set of reporting guidelines and assurance standards” (p.527).

Overall, the market values sustainability, as there is an increasing number of Indices that predominantly focus on sustainability. Such as “KLD, EIRIS, SAM, Dow Jones Sustainability Index, MSCI ESG indices, FTSE4Good index, Bloomberg ESG disclosure scores, and Trucos“(Wijethilake, 2017, p.571) among others. These indices are used to measure the sustainability performance of companies (Siew, 2015) and can increase the visibility of firms (Durand et al., 2019).

Companies have recognized the “importance of sustainability underlying reputation, marketing, and strategy” (Ning et al., 2021, p.1), and “investors are demanding clarity in the intangible assets component of firm valuation” (Ning et al., 2021, p.2). Which has led to companies increasingly issuing sustainability reports (Lu et al., 2021; Ning et al., 2021), especially the largest firms (Lu et al., 2021). Owen & O’Dwyer, (2008) argues that the wide acceptance is based on a strong business case. Commonly, firms publish large annual, text-based, reports (Ning et al., 2021). Companies have a significant variety of tools (self-and external assessment) available to assess their performance (Gerner, 2019; Spitzer & Martinuzzi, 2013) and numerous different standards available (Siew, 2015) to measure their performance. Unfortunately, this makes it “difficult to assess a firm’s performance against past years, let alone compare against competitors” (Ning et al., 2021, p.2). To address this issue of lacking assurance “a growing number of companies” (Owen & O’Dwyer, 2008, p.401) is addressing this issue and seeking external validation of the information disclosed. There are various criticisms around the current reporting practices (see subchapter 1.2.1) Currently there are no global (Bartley et al., 2017) and very few to no local standards, depending on location which results in extremely varied report content and quality (Owen & O’Dwyer, 2008).

### **Sustainability Reporting Standards**

Reporting, as defined by the International Accounting Standards Board states reporting “develops standards that bring transparency, accountability and efficiency to financial markets” (Helfaya & Whittington, 2019, p.527). Despite this definition of purpose for reporting being for financial accounting, these principles should apply to sustainability disclosure to ensure high-quality reports. Helfaya & Whittington (2019) argue that financial accounting has been successfully used to analyze reports and assess their quality, which is also necessary for sustainability reports. Jadoon et al., (2021) claim accounting information is not sufficient to explain the market valuation of firms as it must be supplemented with non-financial data, namely corporate sustainability reports. Despite the understanding of the importance of high-quality sustainability accounting, there is no unity on how such a report is best designed and measured (Helfaya & Whittington, 2019). Various scholars (Bernardi & Stark, 2018; Schadewitz & Niskala, 2010) have shown through their research that sustainability disclosure enhances value. Disclosure does not merely influence perceived value by the market, but also attracts SRI investors (Ning et al., 2021). However, Kaspereit & Lopatta (2016) point out that

for these benefits the quality of content reliability plays a significant role. Nonetheless, for a high-quality report, it is crucial how the performance is measured and how these measures are accepted by various stakeholders (Helfaya & Whittington, 2019). If sustainability disclosure is executed properly it reduces “information asymmetry among stakeholders and would enhance the market value of firms (Schadewitz & Niskala, 2010).

Another crucial part of sustainability reporting is accountability (Carroll, 2021; Schwartz & Carroll, 2008). By definition, accountability is “being responsible to an audience with reward or sanction power” (Beu & Buckley, 2001, p.58). Accountability and Responsibility of firms are closely interconnected as companies should take responsibility for “the impacts of their practices, policies, and processes” Waddock (2002) according to Carroll et al. (2018). According to (Schwartz & Carroll, 2008) Tapscott & Ticoll (2003) claim that a component of responsibility and accountability for business is trustworthiness and transparency. Therefore, Schwartz & Carroll (2008) state that businesses have to “engage in a process of providing sufficient, accurate, timely, and verifiable disclosure of all of its activities (e.g., through auditing and reporting) when such activities might affect others“ (p.171). Thus, reporting on sustainability is crucial for businesses.

Likewise, disclosure can be considered “as a fulfillment of the principle of legitimacy and public responsibility”(D. J. Wood, 2010, p.69). Also, reporting “authenticates the reliability of information”(Jadoon et al., 2021, p.164) therefore, the quality of the reported information is significant.

Furthermore, high-quality, standardized reporting allows assurance and accountability, which is why there are various attempts to standardize sustainability reporting (Schwartz & Carroll, 2008). Introducing an “assurance process of sustainability reporting ensures the quality and reliability of the information disclosed”(Jadoon et al., 2021, p.155). This is further emphasized by various scholars (Dando & Swift, 2003; Rasche & Esser, 2006).

As stated, before the quality of the reported data and overall report is imperative, and assessing the quality of disclosed information is extremely complicated (Helfaya & Whittington, 2019). The complexity of quality assessment is further highlighted by various scholars (Beck et al., 2010; Radu & Francoeur, 2017). Essential to quality reporting is the

choice of measurements which is especially complex for sustainability (Helfaya & Whittington, 2019). However, there are not yet optimal KPIs established for sustainability measures and impact (Helfaya & Whittington, 2019; D. J. Wood, 2010). Establishing suitable and effective measures could offer the possibility to establish guidelines and standardization for sustainability reporting (Gatti et al., 2019; Laufer, 2003; Lu et al., 2021). Therefore, transparency, comparability, and accountability would be improved (Owen & O’Dwyer, 2008). Bartley et al. (2017) argue that the measures and quality of reports determine the credibility of sustainability (reporting) overall.

**Standardization Attempts**

As the current sustainability practices are limited in their meaningfulness for interpretation and comparability they are further lacking “accepted practices on reporting standards and metrics” (Ning et al., 2021, p.2). To address these limitations there have been several attempts to provide “reporting frameworks and identify metrics intended to enhance the creditability of sustainability reports”(Bartley et al., 2017, p.109). However, many attempts are still lacking (Ferreira Quilice et al., 2018). Examples of such include the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC), Task Force on Climate-Related Financial Disclosures (TCFD), the Carbon Disclosure Project (CDP), and the Climate Disclosure Standards Board (CDSB) (Antonic, 2019). An overview of these from (Antonic, 2019, p.121) is presented in Table 2.

**Table 2. Overview of most common Standardization attempts of reporting**

	<b>Sustainability Accounting Standards Board (SASB)</b>	<b>Global Reporting Initiative (GRI)</b>	<b>International Integrated Reporting Council (IIRC)</b>	<b>Task Force on Climate-Related Financial Disclosures (TCFD)</b>	<b>Carbon Disclosure Project (CDP)</b>	<b>Climate Disclosure Standards Board (CDSB)</b>
Subject	Sustainability	Sustainability	Sustainability	Climate change	Climate change	Climate change
Type of guidance	Standards	Standards	Framework	Framework	Questionnaires	Framework
Scope	Industry-specific	General and industry-specific	General	General and industry-specific	General and industry-specific	General
Target audience	Investors	All stakeholders	Investors	Investors	Investors and customers	Investors

Source: Antonic (2019), p.212

In the following, the GRI approach will be shortly presented as it is the one that has found the widest acceptance in business practice (Antonic, 2019; Jadoon et al., 2021; Stocker et al., 2020).

### **Global Reporting Initiative (GRI)**

Among the standardization attempts, nonfinancial reporting has been one of the most widely adopted globally (Yang et al., 2021). The GRI is an NGO that provides guidelines for sustainability reporting (Ning et al., 2021) that are among the “most comprehensive in scope and influential in terms of guiding reporting practice” (Owen & O’Dwyer, 2008, p.394). Furthermore, it is considered to be the most complete and structured (Calabrese et al., 2015) and targets any company regardless of size or industry (Ferreira Quilice et al., 2018). According to Lu et al. (2021), Fanny & Mathilda (2018) argue that the GRI has supported businesses in structuring their activities for “accountability, goal orientation, and comparability” (Lu et al., 2021, p.689). The GRI lays out principles to guide decisions and performance measures to ensure the quality of reports (Ferreira Quilice et al., 2018). However, the GRI is not certifying or enforcing reports (Ning et al., 2021). The GRI is a “multi-stakeholder approach intended to address the interests of not only shareholders but also employees, local communities, governments and regulators, suppliers, distributors, media, non-governmental organizations, customers and others” (Antonic, 2019, p. 212). GRI reports are based on the TBL and report along the economic, environmental, and social dimensions (Ferreira Quilice et al., 2018; Laufer, 2003). The goal of this initiative is to provide quality reporting (Jadoon et al., 2021) that “is equivalent to financial reporting” (Laufer, 2003). It was introduced because of the need for “reporting transparency, inclusiveness, completeness, relevance, and auditability” (Laufer, 2003, p.258). GRI reports include information on what and how to report information and provide alignment to allow for comparability between organizations (Yang et al., 2021). Regardless of its wide adoption and many positive aspects, there remain many criticisms of this initiative (Ferreira Quilice et al., 2018).

The complexity of the guidelines is one of the main criticisms of the GRI (Ferreira Quilice et al., 2018; Yang et al., 2021). Furthermore, it is criticized that the flexibility it allows compromises the standardization and comparability of reports (Ferreira Quilice et al., 2018;

Yang et al., 2021). The implementation of this standard has further been criticized to be time-consuming and costly implement (Yang et al., 2021). Moreover, reports disclosed, according to the GRI guidelines, have been found to contain errors (Kaspereit & Lopatta, 2016) and are considered hard to navigate (Lu et al., 2021) due to their comprehensiveness. Also, the assurance and audit aspect for these reports is not required (Kaspereit & Lopatta, 2016; Laufer, 2003).

Despite its shortcomings, it has been shown that GRI reporting has been positively linked to companies' market valuation (Kaspereit & Lopatta, 2016; Yang et al., 2021). Furthermore, the disclosure of reports, along with the guidelines of the GRI, has been shown to result in additional “indirect and less tangible” benefits such as higher sales, lower costs, improved reputation, and lower environmental charges (Kaspereit & Lopatta, 2016, p.1).

### **Limitations, difficulties, and issues of reporting**

There is no lack of sustainability reports today, however, the quality and consistency in the content of reports are still lacking (Antonic, 2019). It is reasonable to say that reporting efficiently, and consistently, faces various challenges in the business context today. It is crucial to address them to improve reporting and establish sustainability in business. The main issues that the literature shows will be highlighted in this subchapter, as they need to be addressed to improve sustainability disclosure, as it is not effective as of now.

One very basic issue that sustainability reporting faces is the complexity of the topic itself (Lu et al., 2021) as there is no clear indication of who is responsible for what (Sheehy, 2014). Even in literature, there is no agreement on one definition (see subchapter 1.1.1), for whom or to what entity the company is responsible (see stakeholder management subchapter 1.3.3) and there is no clear alignment on rules companies need to follow (see subchapter 1.2.1) or how to implement sustainability internally (see subchapter 1.2). Beyond that is the problem that “an organization cannot solve the entire problem by itself”(Lu et al., 2021, p.690) which makes it hard to quantify the output and impact of sustainability efforts (D. J. Wood, 2010). Another, key issue for companies is that good reporting can only be “a byproduct of performance not the end game itself” (Antonic, 2019, p.213), as she argues that there is a lack of processes in place in most companies. Additionally, many question companies' intention

behind issuing sustainability reports. According to Owen & O'Dwyer (2008), it is likely that the motivations are due to corporate self-interest to increase reputation and stakeholder management. They further argue that the only option to efficiently address deficiencies is “via the introduction of mandatory standardized and externally verifiable corporate sustainability reporting” (Owen & O'Dwyer, 2008, p.400). This is further confirmed by Ferreira Quilice et al., (2018) and Abdi et al. (2021) who point out that “organizations have both positive and negative motivations to create sustainability reports (Ferreira Quilice et al., 2018, p.19) which leads from voluntarism (Abdi et al., 2021) to social and industry pressure (Garriga & Mele, 2004; Windolph et al., 2014; D. J. Wood, 2010).

Furthermore, it is unclear who is addressed in companies' sustainability reports (D. J. Wood, 2010) as there are multiple stakeholders, at least eight, that are relevant to companies (Ebner, 2007), namely “customers, employees, investors, suppliers, competitors, governments (national, subnational and local), society (NGOs, media, academia), and communities” (Lu et al., 2021, p.688). However, what stakeholders are addressed depends on the definition of relevant stakeholders (Schwartz & Carroll, 2008), regardless there is a “general lack of clarity as to the stakeholder groups the company is seeking to address” (Owen & O'Dwyer, 2008, p.392). This is further amplified by the issue of differing interest of these stakeholders and their respective roles toward the company (D. J. Wood, 2010). This is in line with Ning et al. (2021) who state that the intention of companies behind reporting their sustainability practices is “not static” (p.13) and that it's important to explore it further. This overall problem in business to comprehend the topic coupled with its complexity lead to there being “a trust gap between environmental reporters and users” (Helfaya & Whittington, 2019, p.527). This gap can be broadened if the wrong stakeholders are engaged (Owen & O'Dwyer, 2008), therefore this is of central relevance to the credibility of sustainability reporting (Moerman et al., 2005).

Moreover, there is still a lack of knowledge on how to implement (Wijethilake, 2017), report (Bartley et al., 2017), and measure (D. J. Wood, 2010) sustainability. The goals for sustainable development are vague (Spitzer & Martinuzzi, 2013) and governments should “contribute not only by translating the SDGs into the language of business processes but by clearly stating the long-term priorities” (Lu et al., 2021, p.701). Especially small and medium enterprises struggle with implementing and integrating sustainability into their processes and

strategies as they lack resources and knowledge (Cantele & Zardini, 2020). This is further stressed by Lu et al. (2021) who point out that SMEs are crucial to sustainable development, yet they have limited resources and tools available and should therefore be especially supported. This is in line with Owen & O'Dwyer (2008) who predicts that sustainability reporting is “likely to remain predominantly confined to large companies” (p.405).

Also, there are significant differences between industries (Lu et al., 2021), sectors, and countries (Jadoon et al., 2021), which makes it extremely difficult to align reporting (Lu et al., 2021). Furthermore, there is no obligation to act toward or report sustainability (Melville & Ross, 2010). Despite companies investing in sustainability measures, they still consider it to cost them “a lot of administrative work and [need] to redistribute time and resources from their core business”(Lu et al., 2021, p.690). Furthermore, they argue that the tools to report and measure sustainability are rather complex, inconvenient, and complicated to use.

Another, extremely crucial and fundamental issue is the data reported in sustainability reports. The data disclosed by companies is hard to be verified and hard to analyze (Antonic, 2019; Laufer, 2003). Despite many companies “making honest attempts at greater transparency” (D. J. Wood, 2010, p.75) the data to measure a firm's sustainability performance is largely “inaccessible” and hard to obtain in “good quality”, especially for researchers and academia (D. J. Wood, 2010, p. 75). This is further expanded on by Ning et al. (2021) who argue that data on sustainability measures are not limited to sustainability reports but “can be found in social media” (p.5) in different formats which makes them hard to analyze. Furthermore, the data is self-reported and “rather based on estimates rather than actual measurements” (D. J. Wood, 2010, p.69) this is possible as there is no “uniform assessment system” (Lu et al., 2021, p.700) in place. Furthermore, it is criticized that there are “no penalties for false reporting or failure to report” (D. J. Wood, 2010, p.69). This is in line with the criticism of Spitzer & Martinuzzi (2013) who argue that sustainability reports assess only positive impacts while “negative impacts are equalized with zero impact” (p.15). Despite criticizing the same issue Lu et al. (2021) state that it would be complicated for firms to “increase profits from sustainability” (p.700) if firms had to address negative impacts in their reports. This is in line with Owen & O'Dwyer (2008) observing “a clear tendency to avoid coverage of negative social and

environmental impact” and arguing that this considerably questions the transparency and accountability that is supposed to be achieved through reporting.

Additionally, there is extreme difficulty to measure sustainability in the first place, which is a concept already pointed out by D. J. Wood (2010) referring to firms’ social performance. This is confirmed by Helfaya & Whittington (2019) who argue that “robust, reliable and replicable quality assessment is problematic” (p.526), other scholars confirm this (Michelon et al., 2015; Radu & Francoeur, 2017). The variability in reporting further complicates the matter of assessing quality and calls into question the accountability aspect of reporting (Owen & O’Dwyer, 2008). This is in line with, Helfaya & Whittington (2019) point out that the quality of sustainability reports is still lacking. They argue that reports focus rather on quantity than quality, which cannot be equated. This is in line with other scholars (Hassan, 2018; Radu & Francoeur, 2017). This issue is confirmed by criticism about a lack of proper assurance standards of information disclosed in reports(Owen & O’Dwyer, 2008).

Overall, the credibility, legitimacy, transparency, and accountability of sustainability reporting have been called into question. These criticisms have led scholars such as Owen & O’Dwyer (2008) to question whether a “voluntary reporting regime” (p.405) will be sufficient to achieve these goals of corporate sustainability. Another criticism made is that sustainability reports are used to do greenwashing or “selective implementation” of sustainability (Lu et al., 2021). This issue will be addressed in the next subchapter.

### **1.2.2 Greenwashing**

The issue of greenwashing has been (Gatti et al., 2019) an increasing public concern (Gatti et al., 2019) due to firms increasing “green” communication (Szabo & Webster, 2021). Generally, greenwashing is concerned with a gap between what is communicated by companies in terms of their sustainability and how they perform (Delmas & Burbano, 2011) and an act of deception by the company (Laufer, 2003) Greenwashing misleads consumers about the company’s performance and can take place on a company or product level (Delmas & Burbano, 2011). This has been the byproduct of increased sustainability efforts of companies, while “some companies have genuinely decreased their environmental footprints, others exaggerate

their efforts or simply claim to be environmentally responsible when they are not“ (Szabo & Webster, 2021, p.1). There have been many companies involved in greenwashing scandals such as Nestle, Unilever, and Royal Dutch Shell (Bowen & Aragon-Correa, 2014; Laufer, 2003; Owen & O’Dwyer, 2008). As sustainability practices are increasing in complexity and relevance, so is greenwashing (Bowen & Aragon-Correa, 2014). As more studies on greenwashing increase, a definition of greenwashing is not simple and no commonly agreed-upon definition has been reached yet (Gatti et al., 2019). They argue that this is due to the perception of greenwashing being “in the eye of the beholder” (Gatti et al., 2019, p.8). While some scholars see greenwashing in terms of false promotion and deceitful claims (Lane, 2013; Mills, 2009), others see it as selective disclosure of information to present to the company in a positive light (Bowen & Aragon-Correa, 2014; E. H. Kim & Lyon, 2011) while others see greenwashing as making claims that are not verified or backed by evidence (Alves,2009; Bazillier & Vauday,2013 according to Gatti et al., 2019). Due to this variety of reasonings, greenwashing does not necessarily imply unsustainable behavior (Lyon & Maxwell,2006 according to Gatti et al., 2019). However, the most cited view is the “Greenpeace definition” which sees greenwashing as “the act of misleading consumers regarding the environmental practices of a company or the environmental benefits of a product or service “(Gatti et al., 2019, p.7)

The reasons for corporations to greenwash have been discussed extensively, some scholars argue that greenwashing can happen even unintentionally (Szabo & Webster, 2021). While others claim that greenwashing results from a lack of knowledge on how to implement and integrate sustainability into their business strategies (Baumgartner & Ebner, 2010). However, the argument why firms greenwash that has been stressed by the largest number of authors is related to the lack of regulation and reporting standards. It is criticized that firms can easily omit and distort information in their reporting (Delmas & Burbano, 2011; Laufer, 2003) which leads to greenwashing. This is related to the criticism of insufficient and ineffective metrics that are presented in the reports (Laufer, 2003). Moreover, this is in line with criticisms regarding a lack of third-party verification of the information provided in sustainability reports (Delmas & Burbano, 2011; Laufer, 2003) and a lack of punishment for greenwashing (Delmas & Burbano, 2011). This is extended by Dando & Swift (2003) who claim that there is a credibility gap between companies and society, that can only be narrowed by more transparency. Furthermore, the voluntary nature of reporting it is criticized (Delmas & Burbano, 2011; Ferreira Quilice et al., 2018)

Greenwashing has various negative effects, which mainly affect customers rather than the firms themselves (Delmas & Burbano, 2011; Lu et al., 2021). Greenwashing decreases consumer as well as consumer confidence (Delmas & Burbano, 2011; Gatti et al., 2019). This negative effect has been linked to a lower purchasing power (Gatti et al., 2019). Furthermore, greenwashing makes it hard for companies to gain confidence and gain legitimacy (Zinkhan and Carlson 1995 according to (Szabo & Webster, 2021). However, Lyon & Montgomery (2013) claim that in a digital, more transparent world with social media monitoring exaggerated claims are hard to maintain. Bowen & Aragon-Correa (2014) contradict this by arguing that it “is unlikely that a distributed force of informal monitors armed with smartphones and social media will stop big business in its tracks” (Bowen & Aragon-Correa, 2014, p.108). Due to social media greenwashing, however, can become quite public and may directly “backfire on the company and dramatically decrease its corporate reputation” (Gatti et al., 2019, p.12) and legitimacy. Additionally, greenwashing has been found to decrease a company’s financial performance and profitability (Gatti et al., 2019; Szabo & Webster, 2021).

Another consequence of greenwashing is increasing skepticism about the authenticity of corporate sustainability (Lyon & Montgomery, 2013; Szabo & Webster, 2021) and increased confusion about sustainability practices (Furlow, 2010). Greenwashing scandals cause consumers to be suspicious about all corporate sustainability messages, regardless of their accuracy (Gatti et al., 2019). This behavior is not limited to consumers but extends to other stakeholders as well (Seele & Gatti, 2017). Therefore, it can be argued that, despite originally hurting consumers, greenwashing can backfire on the company itself if stakeholders and society regard the intentions behind the company’s sustainability efforts as self-serving. (Lyon & Montgomery, 2013). This lack of trust results in companies being “less motivated to become less environmentally harmful because it does not pay off” (Gatti et al., 2019, p.9). The overall consequences of corporate greenwashing are exclusively negative, for all stakeholders and the environment. As methodologies, measures, and tools are improving over time it is expected that there will be significantly less greenwashing and there will be improved sustainability performance (Delmas & Burbano, 2011)

To prevent greenwashing in the future (Gatti et al., 2019) proposes to introduce a “legal dimension in the field” to “decrease skepticism and improve the relationship between

organizations and the public” (Gatti et al., 2019, p.12). However, they point out the difficulty that government must govern corporate behavior by regulations, especially in a globalized world. While Bowen & Aragon-Correa (2014) highlight that regulators “may become more adept at dealing with the problems of more sophisticated corporate greenwashing“ (Bowen & Aragon-Correa, 2014, p.64) in the future. As of today, the greenwashing regulation is limited and enforcement is uncertain (Delmas & Burbano, 2011), despite this differing on regions(Bowen & Aragon-Correa, 2014). Nonetheless, scholars agree that the first step to “decrease greenwashing is through the refinement and development of a sustainability regulatory system”(Gatti et al., 2019, p.9) as an unregulated approach creates diffusion.

Closely connected to the regulatory and legal debate is the discuss about whether sustainability disclosure reporting should be voluntary or mandatory. Voluntary approaches allow grey zones and encompass the possibility of self-portrayal (Lyon & Montgomery, 2013; Seele & Gatti, 2017), while mandatory approaches enable companies to find ways to circumvent regulations. Overall scholars agree that “greenwashing could be better prevented with a combination of voluntary and mandatory aspects“ (Gatti et al., 2019, p.2).

Furthermore, the sustainability reports themselves need to be improved to prevent greenwashing(Bowen & Aragon-Correa, 2014; Delmas & Burbano, 2011; Gatti et al., 2019; Laufer, 2003). Bowen & Aragon-Correa (2014) demands to improve measurement of sustainability, while, Laufer (2003) emphasizes “rigorous reporting methods and assessments of corporate compliance effectiveness” (p.257).Gatti et al. (2019) argue that the establishment of consistent standards and legal requirements would prevent greenwashing. Furthermore, they criticize the “self-regulatory standards” (Gatti et al., 2019, p.12) which leads them to argue that a third-party audit process is necessary to “substantially decrease greenwashing practices” (Gatti et al., 2019, p.10) and to improve trust between companies and society. This demand for a third-party audit is also promoted by Laufer (2003).

Another important part to prevent greenwashing is public attention and exposure to greenwashing by NGOs and media (Delmas & Burbano, 2011). Public attention has the power to decrease “firms incentives to engage in greenwashing”(Delmas & Burbano, 2011, p. 77), this would result in enhanced transparency which is mutually beneficial for companies and

consumers (Delmas & Burbano, 2011; Szabo & Webster, 2021). Regardless, it is important to remain critical of corporate sustainability behavior (Laufer, 2003), as corporations have an incentive to disguise their real, unsustainable, practices from the public.

### **1.3 The effect of corporate sustainability implementation**

As the topic of sustainability has now been introduced the next step is to consider its importance to businesses and the value it creates. To demonstrate the relevance and benefits of sustainability for businesses first corporate social performance (CSP) will be explained. Second, the research about the connection between corporate financial performance (CFP) and CSP is presented. Third, the Business Case for CSR will be discussed. The so-called business case for CSR justifies the decisions of corporations that pursue corporate actions that go beyond the financial bottom line by establishing “bottom-line financial benefits of pursuing CSR strategies” (Carroll, 2021, p.1264). As the business case and the relationship of CSP-CFP are concepts originally stemming from CSR research each part will be followed by a paragraph relating these concepts to sustainability. However, it is important to note that there is some overlap between the concepts as they have the same aim in a business context, to justify and quantify the financial and economic benefit of CSR (and sustainability) practices. Nonetheless, the business case is “narrower than the search for a CSP–CFP relationship; it aims to provide convincing arguments about why it is in an organization’s best interest to be socially responsible“ (D. J. Wood, 2010, p. 60) which is further highlighted by (Carroll & Shabana, 2010).

#### **1.3.1 Corporate Social Performance**

Initially, it is important to explain corporate social performance (CSP) shortly. CSP was first defined by Wood (1991) as the “configuration of principles of social responsibility, processes of social responsiveness and policies programs and observable outcomes as they relate to the firms’ societal relationships” (p. 693). This rationale assumes that businesses have a wider responsibility to society, an open system view (D. J. Wood, 2010). Whether this rationale is correct or not shall be further discussed at this point as it goes beyond the scope of this thesis, as this is a very fundamental discussion. CSP can be applied to the social as well as environmental aims of enterprises. Moreover, it is important to stress that measuring CSP is

difficult and requires complex tools (D. J. Wood, 2010). Jadoon et al. (2021) argue that CSP also includes sustainability measures.

### **1.3.2 Relationship between Corporate Social and Financial Performance**

The relationship between CFP and CSP is often considered as the basis for discussion of the usefulness of CSR activities, as this implies that there is a reward economically and financially (Carroll & Shabana, 2010). However, the empirical evidence is very mixed (Orlitzky, 2008) as the relationship is “complex and nuanced” (Pava & Krausz, 1996, p.348). Furthermore, it is based on the idea of the “juxtaposition of CSP (defined as ‘doing good’) and CFP (defined as ‘doing well’) as competing claims“ (D. J. Wood, 2010, p.54). Nonetheless, many studies such as (Orlitzky et al., 2003) have found a „positive association between CSP and CFP across industries and study contexts” (Orlitzky et al., 2003, p.423) which is further confirmed by other studies (K. H. Kim et al., 2018). According to (Orlitzky, 2008), this is further supported by Preston and O’Bannon (1997) who found that “financial performance lagged or occurred synergistically with positive social performance (Orlitzky, 2008, p.84). When examining the CSP and CFP relationship Salzman et al. (2005) found that there is an optimal level of CSP, with an optimal level of CSR engagement leading to a positive and a suboptimal level of engagement leading to a negative relationship. Salzman et al. (2005) further argue that it is “impossible to find a simple link because the companies surveyed were likely at different positions on the inverted U-curve, depending on their individual cost/benefit situation“ (Salzman et al., 2005, p.28). Although, (Orlitzky, 2008, p.127) attributes this variability in research to moderator variables such as innovation and others which remain to be investigated. While D. J. Wood (2010) contributes this to bad data and unreliable measures for CSP. According to (Orlitzky, 2008) “Overall, meta-analytic findings suggest that large and small firms can financially benefit” (p. 126) from CSR practices, this well-established positive relationship is further accepted by D. J. Wood (2010). It is important to note that there are considerable arguments for reverse causation between CFP and CSP, which is highlighted in the slack resource theory, which argues that investment in CSR relies on excessive funds from superior financial performance (Orlitzky, 2008, p.122), this concern is also raised by Lu et al. (2021).

Findings of positive CSP-CFP relationships contributed to the notion that it is financially beneficial to engage in CSR practices which led to the development of the business case for CSR (Carroll et al., 2018). The research around the CSP-CFP connection also develops and investigates various reasons for the positive impact of CSP on CFP, these will be discussed in the presentation about the business case, as this is meant as the explanation of a positive CSP-CFP relationship.

Closely linked to the debate around CSP-CFP are the observations in financial markets and how they value CSR and sustainability. Empirical findings show that institutional investors and financial analysts consider CSP and sustainability measures in their investment decisions (Ansari et al., 2015; Cheng et al., 2015; Durand et al., 2019; M. Khan et al., 2016; Thompson & Cowton, 2004). However, some studies contradict these findings (Espahbodi et al., 2019) despite acknowledging that the majority of studies “support the decision-making significance of ESG priorities for investors“ (p.161). Furthermore (Antonic, 2019) argues that a “prominent investment bank found that sustainability factors are strong indicators of future volatility, earnings risk, price declines, and bankruptcies” (p.213) and that sustainability factors are a great reflection of future risk. The aforementioned establish a strong (financial) relevance for businesses and strongly contribute to the argumentation that sustainability has a positive effect on market value and financial returns. When looking at empirical data it is observed that “sustainability events attract more attention from financial analysts and lead to an increase in the percentage of shares held by long-term investors“ (Durand et al., 2019, p. 1471-1472). Moreover, Abdi et al., (2021) find that companies' “participation in social and environmental activities is positively and significantly rewarded by a higher level of financial efficiency” (p.1). Furthermore, the existence of sustainability indices is growing which contributes to the visibility of firms and their sustainability and CSR efforts (Durand et al., 2019).

The overall positive relationship that has been established between the CSP and CFP also holds for the relationship between “sustainability practices and corporate financial performance” (Alshehhi et al., 2018, p.16). This relationship has been the focus of scholars since 1972 (Margolis & Walsh, 2001), so it is significantly established. The positive relationship between sustainability and CFP is further confirmed in various studies that look at the relation between ESG, a measure for sustainability, and CFP (Abdi et al., 2021). Studies

looking at the ESG – CFP has produced mixed outcomes (Gillan et al., 2021). However, most studies find a positive impact of ESG on CFP (Abdi et al., 2021; Jo & Harjoto, 2011; Qureshi et al., 2020). Abdi et al. (2021) argue that mixed results stem from moderators or the costs companies incur in the short term for their investment.

### **1.3.3 Business Case for Sustainability**

The business case is a concept that originally stems from CSR research. It will be used here as according to the agreed-upon definition of CSR (see subchapter 1.1.1) is part of corporate sustainability. As many scholars who present the business case for CSR use CSR and CS interchangeably it is reasonable to assume that the business case for CSR can also be considered a business case for sustainability. However, the elaboration of the Business Case for CSR will be followed by a short commentary explaining why the business case is also valid for the other two dimensions.

The business case for CSR is the basis of justifying practices and decisions that are made without the sole reason of obtaining financial profit and “creating value on multiple fronts”(Kurucz et al., 2008, p.86). It became prominent in the first decade of 2000 (Carroll & Shabana, 2010) and continues to remain popular to ensure business advocates that CSR initiatives pay off. The business case for CSR is used to justify investments and projects and to rationalize the expenditures and the return that yield (Kurucz et al., 2008). According to Kurucz et al. (2008), there are four general types of value that CSR actions can create. Namely 1) cost and risk reduction 2) competitive advantage 3) reputation and legitimacy and 4) synergistic values (Kurucz et al., 2008, p.85). These types are summarized in Table 2.

The first type of business case for CSR is that companies engage in “CSR related activities to reduce costs and risk to the firm”(Kurucz et al., 2008, p.87). This type is based on several hypotheses, among others the tradeoff theory, slack resource theory, and enlightened value maximization which are all based on creating value (Kurucz et al., 2008).

The tradeoff theory was traditionally displayed by CSR critics (Milton Friedman 1962, 1970, Kedia and Kuntz, 1981, Lerner and Fryxell, Levitt, 1958 according to Kurucz et al., 2008)

who consider investment in CSR initiatives “managerial whimsy by which firms incur unnecessary costs and reduce their profitability” (Kurucz et al., 2008, p.87) and contradicted by researchers (Salzmann et al., 2005) who found “an inverted U relationship which suggests there is an optimal level of environmental and social performance beyond which the corporation is incurring unnecessary costs and reductions in profitability”(Kurucz et al., 2008, p.87).

Similar views are extended to the slack resource theory (or available funds hypothesis) (Waddock et al., 1997) which argues that companies engage in CSR and related activities when they have additional resources available due to superior performance. This implies CSR generating additional costs which they can finance in good economic times (Kurucz et al., 2008). However, this view does not align with Barnett et al.'s (2015) findings that firms even in times of economic constraint continue their CSR and sustainability practices.

As the business case focuses on enlightened value creation developed by Jensen (2002) who implies according to Kurucz et al. (2008) and Garriga & Mele (2004) that maximizing value for corporations over the long term is the companies’ objective and requires tradeoffs between stakeholders. Shareholders sometimes have short-term interests which can lead to executives reducing social and environmental spending to maximize personal compensation (Kurucz et al., 2008).

Therefore, instrumental stakeholder management describes the view that stakeholders are part of the firm’s environment which needs to be managed and should therefore not be the sole driver of corporate decisions (Berman et al., 1999). Stakeholder Theory is a critical point that is continuously stressed in the discussion to justify sustainability and CSR actions. Therefore, this approach will be explained in greater detail compared to the other theories. Stakeholder theory was developed by Edward Freeman in 1984 (Carroll, 2021) and was initially intended as a strategic management topic but was quickly adopted by the CSR field (Schwartz & Carroll, 2008). The idea is based on a company having “multiple constituencies stakeholders to whom businesses owe responsibilities because they hold legal, ethical, or other types of stakes in the operation of the organization“ (Schwartz & Carroll, 2008, p.49). Freeman (1984) argues that corporations are responsible to address not only shareholders but also these other interest groups, as these affect the decision-making of companies (according to (Salzmann et al., 2005). Stakeholder theory is concerned with the relationships with stakeholders (Schwartz & Carroll, 2008, p.160). Greenwood (2007) argues that stakeholder theory goes beyond CSR and sustainability and CSR and that it is in companies’ best self-interest to consider

stakeholders' interests. This leads Stocker et al. (2020) to point out that „the management of stakeholders is understood as strategic in nature“ (p.2073). There are two versions of stakeholder management broad and narrow which differ in which stakeholders are addressed through stakeholder management (Schwartz & Carroll, 2008). The broad version of stakeholder management includes all stakeholders that can affect the companies' decisions and actions while the narrow version only addresses stakeholders crucial to the company (Schwartz & Carroll, 2008). Although there is no agreement on which stakeholder management should address or their relative importance, there is an agreement in theory that addressing stakeholders beyond economic reasons is necessary (Salzmann et al., 2005). The relative importance of stakeholders has changed over time and is now about “balancing the interests of all stakeholders, including the firm’s shareholders or owner“ (Schwartz & Carroll, 2008, p.160). Stocker et al. (2020) argue that with an increasing concern for sustainable practices the “concern about the relationship with and the interest of stakeholders has also drawn more attention” (p.2071). This is in line with (D. J. Wood, 2010) who argues that “Stakeholders are the source of expectations about what constitutes desirable and undesirable firm performance“ (p.69) as they are directly impacted by corporate behavior and they “act upon their interests, expectations, experiences, and/or evaluations” (p.72). Stakeholder management and engagement, which is considered “as practices, the organization undertakes to positively involve stakeholders in organizational activities“ (Stocker et al., 2020, p. 2073), has been used extensively to incorporate more sustainability in businesses (Abdi et al., 2021). Sustainability practices may create value for stakeholders and society (Stocker et al., 2020) while Stakeholder engagement gives validity to sustainability issues, as they go beyond shareholder benefit and offer benefits to various stakeholders (Abdi et al., 2021). This importance of stakeholders is being increasingly acknowledged in business for example „the Business Roundtable, the prestigious organization composed of CEOs of major corporations, announced an updated statement that posited a shift from shareholder primacy to a commitment to all stakeholders“ (Carroll, 2021, P1267 -1268). The Covid-19 pandemic has further boosted the importance of stakeholders as it “has reminded us of the critical economic role that businesses play in the social responsibilities of business in world societies“(Carroll, 2021,p. 1268). Therefore, the business case for CSR argues that managing shareholders (and other stakeholders) reduces risk to firms and ensures long-term profitability and viability and corporate interest are served by “mitigating those threats through a threshold level of social or environmental performance” (Kurucz et al., 2008, p.88). This is further, confirmed by current development in financial markets which consider environmental risks those of “highest probability and magnitude” to

businesses (Antonic, 2019, p. 208). Therefore, Antonic (2019) argues that “in recent years, environmental, social and governance factors have emerged as key signals of risk and return for both financial and non-financial organizations “(p.75).

In sum “meta-analytic evidence reaffirms CSR as an important but not essential internal resource” (Orlitzky, 2008, p.120). Moreover, Orlitzky & Benjamin (2001) find in their meta-analysis that CSP reduces business risk, which is likely mediated by an increased reputation. This is further highlighted by (Orlitzky, 2008) who acknowledges that of all CSR measures “reputation tended to reduce risk to the greatest extent” (Orlitzky, 2008, p.122).

The second type of business case for CSR approaches argues that when CSR initiatives are done strategically, they can create a relative competitive advantage over industry rivals (Kurucz et al., 2008). These perspectives are based on theories such as the supply and demand theory, the resource-based view, the natural resource-based view, and including stakeholders for competitive advantage (Kurucz et al., 2008). This is an approach to value creation is based on companies adapting to “external context to optimize organizations competitive advantage” (Kurucz et al., 2008, p.89).

The supply and demand theory of CSR argues that firms will deliver only the level of CSR practices that are demanded of them (Kurucz et al., 2008).

The resource-based view (RBV) (Barney et al., 2001) views companies as consisting of resources and capabilities which are the firm’s assets. These resources and capabilities can be used to build a sustained competitive advantage if they are “valuable, rare, imperfectly imitable, and not substitutable“(p.625). Wheeler et al. (2005) highlight that the RBV emphasizes that companies' assets do not solely comprise “hard assets such as financial resources, equipment, and technology“ (p.37) but that competitive advantages can also be derived from “soft assets and intangible resources that are rare, valuable and difficult for others to imitate“ (p.37). Barney et al. (2001) argue that resources and capabilities „must be evaluated in the market context“(p.631) but also highlight that when the context changes the capabilities need to be reevaluated. As the competitive advantage is based on internal resources that must be adapted strategically to the external environment this requires businesses to adapt to global drivers of change (such as sustainability) to maximize value (Kurucz et al., 2008). Based on the RBV it is argued that companies' social and environmental performance “can constitute a source

of competitive advantage“(Barney et al., 2001, p.636). Barney et al. (2001) name companies such as Ben and Jerry’s, Johnson & Johnson, and the Body Shop as successful examples of this. Further empirical research shows that a competitive advantage based on sustainability or CSR practices translates into reality as some customer segments and external stakeholders might have a higher willingness to pay for products from responsible acting companies, even though this might not be generalizable (Auger et al., 2003; Windolph et al., 2014).

A theory that was developed based on the RBV is the natural-resource-based view, developed by Hart in 1995 and highlights the limited natural resources (Hart & Dowell, 2011). According to Wijethilake (2017) Hart (1995) argues that competitive advantages will be based on “capabilities that facilitate environmentally sustainable economic activity” (Wijethilake, 2017, p.571). The natural-resource-based view proposes interconnected strategies to obtain a sustainable competitive advantage, namely prevention of pollution, product stewardship, and sustainable development (Hart & Dowell, 2011). This type “focuses on maintaining environmentally friendly production processes for an indefinite future”(Wijethilake, 2017, p.571). Fifteen years after the development of the natural-resource-based view “the environmental, economic, and social challenges outlined have only multiplied“ (Hart & Dowell, 2011, p.1475) and the natural resource-based view is still highly relevant today.

A further approach to obtaining a competitive advantage is through stakeholder management and engagement (Stocker et al., 2020). Stakeholder management (this has been covered in the previous type of business case) allows firms to segment stakeholders create value-generating strategies, and develop internal “organizational resources that build competitive advantage by enabling a strategic adaption to the external environment” (Kurucz et al., 2008, p.89). Therefore, strategic actors will select and “adopt those CSR practices that make the firm-specific resources valuable rare and costly to imitate” (Kurucz et al., 2008, p.120) which then leads to a more sustainable competitive advantage (Barney et al., 2001).

According to these arguments building a business case for CSR that creates value for the company is based on strategic orientation and direction of resources toward the demand of stakeholders (Kurucz et al., 2008).

The third type of business case for CSR is to increase value by improving the company’s reputation and legitimacy by aligning stakeholders’ interests (Kurucz et al., 2008). This type is

based on theories such as licenses to operate, social impact hypothesis, and socially responsible investing. In addition, Kurucz et al. (2008) state that generally, reputation was the best indicator for companies' financial performance among various CSR indicators

The license to operate considers enterprises as the social entity that needs to justify their existence and responsible use of their power or is at risk of having their license revoked (Kurucz et al., 2008; Windolph et al., 2014).

The social impact hypothesis "suggests that failure to meet stakeholder needs harms firms' reputation and thus suggests the cost of CSR activities are much less than the potential benefits" (Kurucz et al., 2008, p.90). According to this theory addressing various stakeholders "enhances the financial performance of a firm"(Jadoon et al., 2021). This is in line with Kurucz et al., (2008) who argue that CSR initiatives may act as a revenue generator through an increased wiliness to pay by customers and other stakeholders (Auger et al., 2003) or an increased reputation may lead to a larger market share or larger customer base (Kurucz et al., 2008). Increased reputation could lead to various benefits for the firm such as attracting more talent (Backhaus et al., 2002; Lu et al., 2021). Furthermore, a decreasing reputation is increasingly considered a considerable risk to companies as valuations are increasingly made up of intangible assets (Antonic, 2019; Ning et al., 2021). Therefore, reputation is "entrenched as a strategic business issue among 88 percent of firms across all sectors" (Antonic, 2019, p.207) and is, therefore, an important asset to companies. Furthermore, increased reputation could lead to a positive impact and improved relationships with various stakeholders. Auger et al. (2003) have found that some customers have a higher willingness to pay for firms acting socially and environmentally responsibly. This is also highlighted by (Orlitzky, 2008) who argues that "because of their own moral convictions and value systems customers and suppliers may be or become more willing to deal with companies with a good CSR track record" (Orlitzky, 2008, p.118). Furthermore, the effects of CSR activities could be increased goodwill among employees which is caused by "increased organizational commitment and task motivation produce better results" (Orlitzky, 2008, p.118) this is further confirmed by (Lu et al., 2021).

Additionally, there are socially responsible investing (SRI) approaches that incorporate investors' expectations for financial return with prioritization of expectations for CSP (Carroll & Shabana, 2010; Cheng et al., 2015). This is further highlighted by the UN launching the principles for responsible investing (PRI) which are signed by more than 1700 investors

(Espahbodi et al., 2019). Furthermore, sustainability factors are becoming increasingly relevant to (institutional) investors (Antonic, 2019). This is also reflected in market data as Blackrock, the biggest institutional investor, recently stressed that public companies must disclose how they contribute to society or lose Blackrocks' support (Espahbodi et al., 2019). The adoption of SRI and PRI principles in the market suggests a relationship between reputation and market value (Orlitzky, 2008).

Overall, it can be said that this type of business case for CSR aims at establishing a competitive advantage through increasing their reputation and proving their legitimacy.

The fourth and last type of business case for CSR aims to find “win-win-win outcomes by seeking out and connecting shareholder interests” (Kurucz et al., 2008, p.91) theories and research in this type are characterized by creating value for multiple stakeholders at the same time (Kurucz et al., 2008). Among this type are topics such as the sustainable local network model, the value-based model, or the triple bottom line (Kurucz et al., 2008).

The sustainable local network enterprise model was developed by Wheeler et al. (2005) when examining case studies of “how sustainable enterprise in developing countries can thrive in a trust-based, densely networked environment“(p.35). Sustainable local enterprise networks begin with some existing assets which function as “a catalyst for increased growth; positive outcomes can result in virtuous cycles of reinvestment in human, social, financial and ecological capital.”(Wheeler et al., 2005, p.39).

Moreover, the value-based network model (Wheeler et al., 2003) was created with the acknowledgment of an increasingly interconnected world in which sustainability and stakeholder interests can be reconciled to greater value. They argue that stakeholders can be grouped in “value-based networks” based on what is valuable to them as they have common interests. Through these common interests and common understanding of value, shared value can be created (Wheeler et al., 2003).

Furthermore, the TBL approach (see subchapter 1.1) Elkington (1997) emphasizes synergies between organization, environment, and society.

Scholars investigating this type of business case find that a positive CSR-CFP relationship is often correlated with an increased level of “managerial knowledge and skill”

(Orlitzky, 2008, p.117). Among these skills is effective environmental assessment through which companies can balance stakeholders' concerns (Waddock et al., 2002) which may decrease a company's "legal costs because it is precisely the unaddressed stakeholder concerns that usually turn into lawsuits" (Orlitzky, 2008, p.121). Furthermore, improved managerial skills and assessment systems improve organizations' "anticipation of and preparedness for external changes and turbulence" (Orlitzky, 2008, p.119).

The fourth type of business case for CSR summarizes attempts that are "focused on seeking opportunities to unearth, relate, and synthesize the interests of a diverse set of stakeholders broadly conceived" (Kurucz et al., 2008, p.92) and combining them in new frameworks of value creation.

Finally, the following table (Table 2) summarized the four basic types of the business case for CSR presented above.

**Table 1. Overview of different types of Business Cases for CSR**

	Cost and Risk Reduction	Competitive Advantage	Reputation and Legitimacy	Synergistic Value Creation
Key-Value Proposition	Trading: engaging in CSR to reduce costs and risk to the firm	Adapting: a strategic approach to CSR to build relative competitive advantage	Aligning: exploiting CSR activities to build value through gains in firm reputation and legitimacy	Relating: integrating stakeholder interest to create value on multiple fronts
Central role of business	Economic Actor	Economic Actor	Political Actor	Social Actor
Level of Theory	Organization	Industry	Political and Cultural System	Societal
Theories	• tradeoff theory	• supply and demand theory	• license to operate	• sustainable local network

<ul style="list-style-type: none"> <li>• slack resource theory</li> <li>• enlightened value maximization</li> <li>• stakeholder management</li> </ul>	<ul style="list-style-type: none"> <li>• Resource-based view</li> <li>• Natural resource-based view</li> <li>• Stakeholder Management</li> </ul>	<ul style="list-style-type: none"> <li>• social impact theory</li> <li>• socially responsible investing (SRI)</li> <li>• Principles for Responsible Investing (PRI)</li> </ul>	<ul style="list-style-type: none"> <li>• enterprise model</li> <li>• value-based network model</li> <li>• Triple Bottom Line</li> </ul>
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Source: Abbreviated and modified from (Kurucz et al., 2008, p.93)

Despite the Business Case for CSR being directed at social measures many researchers specifically mention that both CSR and environmental aspects result in these value-generating actions (Antonic, 2019; Elkington, 2004; Kurucz et al., 2008; Salzmann et al., 2005). Furthermore, many researchers that have presented the business case for CSR consider that the terms CSR and Sustainability may be used interchangeably (Carroll & Shabana, 2010; Schwartz & Carroll, 2008).

Regardless, there is substantial research that each of these four ways to create additional value is also provided by engaging in environmental action. It has been proven that engaging in sustainable practices reduces business risk (Antonic, 2019; Wijethilake & Lama, 2019) and there are various business models in which the competitive advantage is based on sustainability and environmental protection (Orsato, 2006) as the entire concepts as circular economies are based on sustainable and environmental practices that minimize environmental impact (Fux, 2019). Moreover, sustainability practices and shared value creation can increase the “reputation” and “trust” toward companies (Wheeler et al., 2003; D. J. Wood, 2010) and the visibility of companies (Durand et al., 2019). Sustainability initiatives have become more common and expected by the market (Alshehhi et al., 2018; Carroll, 2021). Offering all stakeholders unique advantages is one approach to implementing a successful sustainability strategy (Abdi et al., 2021; Baumgartner & Ebner, 2010), and finding synergies and consensus among various stakeholder groups is the basis for TBL (Elkington, 2004). This short excerpt

already shows that the value creation that is proposed through the business case for CSR also applies to environmental responsibility and engagement.

That the economic dimension of corporate sustainability needs to be fulfilled, is not even debated among CSR critics. The fulfillment of basic economic value creation activities as profit maximization and pursuit of economic goals proves valid to CSR and Sustainability critics as well as supporters (Carroll, 2021; Carroll & Shabana, 2010; Elkington, 2004). As the Business case for CSR holds for all three dimensions of corporate sustainability it can be said that there is significant theoretical proof that sustainability is an extremely relevant topic for companies to achieve long-term success (Barnett et al., 2015). Regardless, it is also important to point out that this justification has its criticism and limitations which shall be elaborated on next.

The business case for CSR and CSR itself has many critics that start from those, such as Friedman (1970) and Levitt (1985), believing CSR not being the responsibility of business and should not take over roles of the government (Kurucz et al., 2008, p.58) and also from the left spectrum of “Social democrats and believers in big government may dislike the implications of positive CSP-CFP correlations” (Orlitzky, 2008, p.129) and fear that business is taking on tasks of the government. However, it has been observed that corporations increasingly address societal and environmental issues (Matten & Moon, 2020), with some arguing that this is due to corporations in an increasingly interconnected and global world not being able to ignore these challenges as they pose risks to their companies (Antonic, 2019) and therefore economic profit. Also, there is a general criticism of how the business case for CSR is established, with Hafenbradl & Waeger (2017) arguing that it stems from “a tendency to justify and idealize a market economy system (p. 1582) or (Ciulla, 2014) arguing that CSR and business ethics does not need justification as it is already justified in itself. Furthermore, scholars (Rowley & Berman, 2000) argue that to assume CSP and CFP are always under all conditions related. It “is an extreme, untenable proposition” (Kurucz et al., 2008, p.98). Others argue that the justification through a Business Case contributes to CSR being viewed as optional and that it is removable from a business’s responsibilities (Kurucz et al., 2008, p.98).

Contributing to questioning the validity of a business case, but also most other CSR literature, is that literature is “overwhelmingly focused on firm financial performance“ (Barnett et al., 2020, p.938) and “stopped short of assessing social impact, often measuring CSR activities rather than impacts and focusing on benefits to specific stakeholders rather than to wider society“ (Barnett et al., 2020, p.937). This was also criticized by (Wood, 2010) who claims that social impact is being overlooked in the debate around CSP. Barnett et al. (2020) argue that measuring social impact rather than only financial impact on companies is increasingly important as companies progressively address more social problems, while corporate resources are limited. Therefore, Barnett et al. (2020) call for CSR research to be “reconceptualized as a science of design“(page 955) which allows not only the development of impactful and customized solutions but also more effective policies.

## **Chapter 2. The state of corporate sustainability in the financial sector**

Sustainability in the financial sector is widely considered Sustainable Finance or ESG and “refers to the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects” (European Commission, 2020). Taking ESG considerations into account has “grown rapidly over the past decade” (Boffo & Patalano, 2020, p.6). Often ESG has a strong focus on green finance components that reduce environmental pressures such as greenhouse gas emissions, pollution, and minimization of waste and natural resources (EU Switch to Green Flagship Initiative, n.d.).

However, the definitions vary, according to Boffo & Patalano (2020) but generally, ESG investing is an “approach that seeks to incorporate environmental, social and governance factors into asset allocation and risk decisions, to generate sustainable, long-term financial returns” (Boffo & Patalano, 2020, p.6). Generally, the financial sector is considered to have significant power to influence sustainability outcomes as it can influence funding and awareness of sustainability issues unlike other industries (Bakken, 2022). The financial sector can influence environmental factors by mitigating some of the impacts on climate change and the overall environment (European Commission, 2020) and promoting sustainable use of resources (Bakken, 2022). Moreover, social factors can be influenced by paying attention to consumer protection and focusing on diversity within companies (Bakken, 2022). Additionally, labor relations and human rights can be prioritized (European Commission, 2020). Furthermore, governance factors are concerned with management, employee relations, and the organization's practices (Bakken, 2022). According to Boffo & Patalano (2020), the growing concern and increased attention sustainability (ESG) has received in the financial sector is due to three factors. Firstly, the findings that ESG investing does not lead to poor returns compared to traditional investments and that it can improve the management of risk (Boffo & Patalano, 2020, p.6). Secondly, the Boffo & Patalano (2020) argues that societal values are increasingly influencing consumers' and investors' choices and therefore also corporate performance and observe that there is “growing societal attention to the risks from climate change, the benefits of globally-accepted standards of responsible business conduct“ (Boffo & Patalano, 2020, p.6). Thirdly, the (Boffo & Patalano, 2020) points out the increasing “move way from short-term perspectives of risks and returns, to better reflect longer-term sustainability in investment performance“ (p.6)

Public institutions rely on the private sector to contribute to their efforts towards sustainability as the private sector plays a significant role “in redefining business as usual” (WWF, 2017) due to its “unique position to incentivize the transition through only agreeing to lend to, invest in and insure businesses that manage their nature risks and impacts” (WWF, 2017). This is further emphasized by the European Commission (2020) which believes that sustainable finance in the private sector complements the actions taken in the public sector and is essential to achieving success. Especially in Bakken (2022) points out that the financial sector has significant power to fund and bring awareness to sustainability issues and can therefore potentially create enormous changes. The WWF (2017) considers it essential for financial institutions to look to integrate ESG factors into “mainstream lending and investment to reduce their financial and reputational risk”. Another reason why sustainable finance is considered to be essential to achieving more sustainable performance is that the “finance sector is strongly correlated with the performance of the economy” (WWF, 2017) and therefore has an extraordinary position to capture value from and advance a sustainable economy (WWF, 2017). The (United Nations Environment Programme, n.d.) considers sustainable finance also crucial to ensure future financial stability by creating new types of investment and lending opportunities for borrowers and lenders that increasingly demand sustainability.

The change towards sustainable development in the financial sector is driven by many factors simultaneously, such as an increasing number of regulations and other industry pressures that requires banks and other actors in the financial sector to pursue sustainability (PricewaterhouseCoopers, 2021). Additionally, there are changes in customer demands and investor expectations which leads banks, insurers, and investors to redesign their business models (United Nations Environment Programme, n.d.). This leads to companies overall prioritizing not only shareholders as their dominant audience and rather focusing on “stakeholder capitalism” (Bakken, 2022; Kerber & Jessop, 2021; Malik, 2022). Companies in the financial sector seem to share the overall impression that sustainable finance is becoming increasingly important as more products taking ESG considerations are being developed is growing significantly (Boffo & Patalano, 2020).

Globally commitment toward the establishment of sustainable development is increasing (United Nations Environment Programme, n.d.). The UN established a United Nations Environment Program Finance Initiative (United Nations Environment Programme, n.d.) which is a partnership between “banks, insurers and investment companies that have established among the most important sustainability frameworks for the sector. It aims to align private money with the UN Sustainable Development Goals” which have gained tremendous support among financial institutions (United Nations Environment Programme, n.d.). According to the United Nations Environment Programme (n.d.) there are more than 450 financial institutions members of their membership to promote sustainable finance and in the past year and members “have given 113 million vulnerable customers access to financial services and advised over 15,000 companies on their climate strategies.” (United Nations Environment Programme, n.d.). However, not only regulators and governments push sustainable development, but also corporates have also stepped up globally to support the efforts, with many being ahead of regulations and doing more than legally required (Malik, 2022). There are also significant advancements in new guiding principles and new frameworks being developed to guide sustainable finance such as the Principles of Responsible Investment, Sustainable Insurance or Responsible Banking (United Nations Environment Programme, n.d.). Furthermore, investors increasingly demand transparency which has led to an increase in ESG branded assets who are expected to reach \$53 trillion by 2025 (Bakken, 2022). As of now financial institutions “are setting targets every few years and making their progress public via annual reporting“ (United Nations Environment Programme, n.d.). Globally stock exchanges and governments have been increasingly requiring listed companies to disclose ESG topics, with multiple countries like Australia and the EU having developed mandatory disclosure requirements (Malik, 2022). The regulatory, investor and disclosure pressure have increased in the US (Kerber & Jessop, 2021; Malik, 2022), in Europe (Delnevo, 2021; Malik, 2022) as well as in Asia (Bloomberg Professional Services, 2021; Malik, 2022). Globally there is increased regulatory and investor pressure that leads to large inflows in ESG products (Kerber & Jessop, 2021; Malik, 2022). According to Kerber and Jessop (2021) „a record \$649 billion [was] poured into ESG-focused funds worldwide“ since 2019, which has led to now 10% of worldwide fund assets being ESG funds. According to Kerber and Jessop (2021) „of the \$6,1 Trillion in ESG funds, 59% of the money is held in Europe, Middle East and Africa” which is likely reflecting the early adoption of the trend in these regions.

Commitment within the EU towards sustainable development was initiated with the adoption of international agreements such as the UN 2030 Agenda and Sustainable Development Goals and the Paris Climate Agreement, towards which achievements substantial financial resources are allocated (EU Switch to Green Flagship Initiative, n.d.). The financial sector shall steer investment towards more sustainable technologies and businesses, finance long-term sustainable growth, and contribute toward creating a “low-carbon, climate-resilient and circular economy” (EU Switch to Green Flagship Initiative, n.d.). Therefore, ESG and sustainability have received increased concern from regulators and central banks who are advancing regulations concerning sustainability (Boffo & Patalano, 2020). The European Union (European Commission, 2020) considers Sustainable Finance to have a key role in delivering global commitments concerning sustainability and climate change. This is further promoted by powerful industry actors such as the European Central Bank who are committed to keeping up the pressure on banks to pursue sustainable activities and require mandatory reporting on climate risk from 2022 on (PricewaterhouseCoopers, 2021). The European measures adopted were outlined in the EU’s Action Plan on Sustainable Finance in March 2018 (UNPRI, n.d.). Their efforts aim to “reorient capital flows towards sustainable investment”, “manage financial risk stemming from climate change, natural disasters, environmental degradation, and social issues” and “contribute to the creation of a low-carbon, climate-resilient, and circular economy” (EU Switch to Green Flagship Initiative, n.d.). The reorientation of capital flows involves the establishment of a system for the classification of sustainable activities (UNPRI, n.d.), this taxonomy is a unified system that classifies activities and their impact on sustainability (EU Switch to Green Flagship Initiative, n.d.). Furthermore, the goal is to create EU standards based on this taxonomy to classify green financial products according to their sustainability (EU Switch to Green Flagship Initiative, n.d.). Therefore, investors and other financial actors have the opportunity to incorporate sustainability considerations in their business practices and benchmarks (UNPRI, n.d.). These further increase transparency for all stakeholders (EU Switch to Green Flagship Initiative, n.d.) and allows enhanced corporate reporting and disclosure (UNPRI, n.d.). Another crucial factor is to integrate sustainability-related risks into existing ratings and actively manage them (UNPRI, n.d.).

The outlined action plan is currently in the process to implement this plan. For instance, since July 2020 the EU taxonomy has been published and in force (European Commission, 2020). This taxonomy sets four conditions for economic activities to be sustainable and establishes six environmental objectives: climate change mitigation and adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems (European Commission, 2020). Additionally, there are increased reporting and sustainability reporting requirements for industry players in the EU, this relates to investment activities and risk management activities (UNPRI, n.d.). Uniform investment criteria are being developed (EU Switch to Green Flagship Initiative, n.d.) and benchmarks are currently being developed (UNPRI, n.d.). The goal is to implement a common standard for reporting, which is currently being developed, as the action plan from 2018 is implemented and regulations such as taxonomy and reporting are aimed to boost sustainable development, as they are being developed comprehensively and in combination with one another and regulations and plans are continuously amended (Delnevo, 2021). These are just some of the measures and policies that are developed by the EU, however, they will not be further elaborated on due to the constraint of this thesis.

The efforts of the EU have resulted in increased investment into ESG funds (Schwartzkopff, 2021). According to Schwartzkopff (2021) „More than half the money that flowed into European funds last year went into sustainable products” which resulted in \$1,4 Trillion in investment funds that are being allocated towards ESG products (Schwartzkopff, 2021). Since the beginning of 2018 ESG funds have more than doubled, which has led to now 11% of European assets under management now being invested in sustainable funds (Schwartzkopff, 2021).

Despite the EU's commitment to pursuing sustainable development the “European Commission calls for a coordinated, global effort involving other players, like the EU Member States, the private sector and major non-EU countries, to take decisive action to promote and lead transformation in their respective areas” (EU Switch to Green Flagship Initiative, n.d.). The EU aims to set a benchmark policy and aims to open a dialogue on how to promote and implement sustainability in the financial sector “including in the Financial Stability Board, the G20, the G7, the United Nations and the International Organisation of Securities Commission“ (EU Switch to Green Flagship Initiative, n.d.).

### **Chapter 3. Empirical study results: Corporate Sustainability practices in the financial sector**

This thesis' aim to recognize the links between the motivations, processes, and results of engagement in corporate sustainability practices by companies operating in the financial sector. Three research questions were developed to reach this goal:

**RQ 1.** *Why do companies in the financial sector incorporate sustainability practices?*

**RQ 2.** *How do companies in the financial sector incorporate corporate sustainability principles in their operational practices?*

**RQ 3.** *What are the results and challenges of engagement in sustainability practices by financial sector companies?*

#### **3.1 Research approach and design**

The multiple case study approach was selected for this thesis as it is considered the “preferred method in situations when the main research questions are how or why the researchers have little to no control over behavioral events and the focus of the study is a contemporary phenomenon” (Ying, 2014, p. 2). Firstly, the research questions to be investigated are all why and how questions, therefore the case study approach is appropriate to answer these questions. The questions are intended to be exploratory and help to gain insights into corporate sustainability practices. Secondly, corporate sustainability efforts cannot be replicated or analyzed in a controlled environment with purposefully created conditions, as they must be observed in a real-life context, and therefore this research should rely on real-life examples to get answers to the posed questions. Thirdly, corporate sustainability can certainly be considered a contemporary phenomenon as sustainability efforts by companies have been increasing in the past years (Boffo & Patalano, 2020) and seem to gain larger attention from companies and society (Alexander & Kern, 2014; Berensmann & Lindenberg, 2016). The insights gained are obtained from direct observations, interviews, and publications. Therefore, the case study technique is uniquely fitting to answer the posed research questions and is utilized in this thesis. Furthermore, researchers such as (Klettner et al., 2014; White, 2009) use

case studies to investigate similar topics as this dissertation, and (Engert & Baumgartner, 2016) claim that specifically “case study research would be valuable in assessing how corporate sustainability strategies are implemented” (p.823).

For this research two types of data sources will be utilized: primary data (e.g. expert interviews, observations) and secondary data (e.g. company websites, published reports). The interview questions are structured in the form of semi-structured interviews and aimed to make the interviewee explain their experience and perception of the different points of interest. The data collected from the qualitative interviews will be complemented with data that is publicly disclosed by the respective company. The collected data through the case studies will be used to make general conclusions on sustainability motivations, implementation, and processes.

Generally, there are two types of case studies single case studies and multiple-case studies (Ying, 2014). Single case studies are generally more vulnerable compared to Multiple Case studies as they usually have fewer analytical benefits (Ying, 2014). Largely, “criticism around the single case studies usually fears about the unique or artifactual conditions around the case” (Ying, 2014, p. 64). Thus, multiple case studies are usually seen as more robust and generally preferred (Ying, 2014). Multiple case studies require carefully selected cases, and can be any number of cases above two, as conclusions made will be more powerful compared to single case studies (Ying, 2014).

As the case study method is uniquely fitting for the type of research questions posed (Ying, 2014, p.50) as elaborated on in the previous paragraph. Therefore, this was selected as the research design for this dissertation. To decide between a single and multiple case study it is crucial to highlight that there are many different actors in a business context, such as the financial sector, acting for various motivations, in different and possibly even acting in multiple or contradicting ways. To take differences between actors into account and to make general conclusions on motivations, implementation, and challenges regarding sustainability efforts in the financial sector a multiple case study approach will be followed. Moreover, Quintão et al. (2020) argue that case studies are suitable for phenomena that the researchers don't have much control over, and it is a useful tool to understand the reasons that lead to companies' behavior and decisions.

Various criticism of the case study method criticizes it for being not rigorous enough (Quintão et al., 2020; Ying, 2014). However, the quality of research design there are four quality assessment tests to ensure high quality of case studies, namely construct validity, internal validity, external validity, and reliability (Ying, 2014).

First, construct validity is considered as “identifying [the] correct operational measures for the concepts being studied” (Ying, 2014, p. 46). To ensure construct validity in case studies “multiple sources of evidence must be used and a process of triangulation of the data” (Quintão et al., 2020, p.2). In this multiple case study multiple sources of data were used, primary and secondary, and additionally expert interviews were conducted to improve the quality of the information received from the respective case studies (see chapter 3.2 data collection and analysis), as it was only possible to conduct one interview per case.

Second, internal validity aims to “seek to establish a causal relationship whereby certain conditions are believed to lead to other conditions, as distinguished from spurious relationships” (Ying, 2014, p. 46). Ensuring internal validity is the key issue to ensure the researcher can construct a plausible causal argument that is rigorous enough to support the research results. (Quintão et al., 2020). In this dissertation, the case selection criteria ensure internal validity, as the case studies were chosen along with specific commonalities that allow the comparability of cases (see the following paragraph about case selection criteria and the summary in Table 3) and also allow the researcher to establish causal arguments.

Third, external validity acknowledges “the domain to which a study’s findings can be generalized” (Ying, 2014, p. 46). To ensure external validity it is important to present the reasons for case selection, present the context of each case study and identify patterns between case studies (Quintão et al., 2020). The case selection criteria and company background are explained thoroughly in the following paragraph “case selection criteria” and summarized in Table 3. Case selection was based on a specified number of similarities and differences which ensure external validity and allow generalizations of results.

Last, reliability of (multiple) case studies refer to “the operations of a study – such as the data collection procedures – can be repeated with the same results” (Ying, 2014, p. 46). Reliability connects to the replicability of studies and requires a sampling logic of the studied cases (Quintão et al., 2020). To ensure replicability in this multiple case study the cases were carefully selected (see the following paragraph about case selection criteria and the summary

in Table 3) and data collected in the case analysis was analyzed uniformly (see chapter 3.2 data collection and analysis).

### Case selection criteria

As sustainability practices have become very common in most industries, a selection of a specific sector to focus on, in the empirical part of this dissertation was chosen. An introduction to sustainability shall be made in chapter 3, therefore the relevance, practices, and challenges specifically shall not be elaborated on in this subchapter.

The companies were selected to be similar, yet different, and appropriate experts were selected to complement the information received through the multiple case study. The Connecting Factors and distinctive factors are depicted in Table 3.

**Table 3. Case selection criteria**

Case	Commonalities		Distinguishing factors		
	Follows EU-Sustainability Regulation	Company Size (employees)	Customer	Type of Company	Geographic Focus
A	YES	Approx. 120	Investor	Asset Manager	Germany and UK
B	YES	Approx. 170	Consumer and SME	Consumer Bank	Austria and CEE

Source: Own Work

The connecting factors in the case selection were that the selected cases are operating in the EU and are required European regulation, posed by the ECB. The companies operate in the financial sector and have a similar size.

Firstly, the reason for targeting Europe geographically in its entirety is due to the main organizations advocating and working toward the creation of sustainable development in the financial sector are international financial institutions such as central banks and regulatory authorities. As regulations in the past have usually created problems if financial policy approaches have not been coordinated (Berensmann & Lindenberg, 2016), the majority of regulations today are now being driven on a European level and therefore apply to every member state of the European Union (Bowen & Aragon-Correa, 2014). Central Banks and regulators are central to the seed and progress of sustainable development in the financial sector as they can require market actors to act towards sustainable development (Berensmann & Lindenberg, 2016). Therefore, even though differences between countries might exist, differentiating between the countries should not be necessary, as all European actors in the financial sector must comply with the same regulation and the financial market in Europe shall be considered as a single market. Secondly, both companies operate in the financial sector, as Case A is an asset manager and Case B is a Bank. Thirdly, both companies have similar sizes, with both cases having between 100-200 employees.

The distinctive factors in the case selection were that the selected cases serve different stakeholders, are different types of companies, and operate in different European countries.

Firstly, the two companies are focusing on two different stakeholders, in their business operations. While Case A focuses on investors, Case B focuses on customers and SMEs. Therefore, they represent the two main drivers of sustainability, the market, and investors (Carroll, 2021). Secondly, banks and investors are the two largest actors in the financial market, therefore they were chosen as the target of this as according to the (Berensmann & Lindenberg, 2016) “the main actors driving the development of green finance include banks, institutional investors and international financial institutions as well as central banks and financial regulators” (Berensmann & Lindenberg, 2016) According to banks play an important role in increasing the sustainability in the financial sector due to their large share of global assets and their ability to “mobilize finance for sustainable development”(Alexander & Kern, 2014, p) and their unique possibility to design effective measures for risk mitigation that impact the entire economy through activities such as priority lending requirements or below market rate financing via interest rate subsidies (Berensmann & Lindenberg, 2016, p.1). Moreover, Institutional investors are extremely significant in promoting sustainability in the financial

sector due to them holding the largest share of global assets (Berensmann & Lindenberg, 2016), and therefore a large share of sustainable financing will be required from institutional investors to create lasting change (Berensmann & Lindenberg, 2016). However, according to (Berensmann & Lindenberg, 2016) there are significant hurdles for this group as “green investments are generally not included in the relevant benchmarks of rating agencies as they do not have a sufficient track record to be given a rating” (p.2). Further issues for institutional investors are the lack of scalability of sustainable investments and significant constraints in existing regulations regarding their investment strategies (Berensmann & Lindenberg, 2016). Thirdly, despite the European market theoretically being one market differences between companies exist (Bae et al., 2018; Vann & Presley, 2018), which is another distinctive factor between the cases selected.

### **3.2 Data collection and analysis**

The data for the empirical part of this dissertation is focused on qualitative data, as qualitative research is “essentially used to understand the underlying motives, opinions and motivations” (Quintão et al., 2020, p.265) which is the goal of this dissertation. The qualitative data was collected through conducting open-ended interviews which Ying (2014) considers “one of the most important sources of case study evidence” (p.110). As supporting information secondary data, such as publicly disclosed information on the respective company’s website, was used to complement the data obtained from the interviews. The data collected through interviews were gathered in form of shorter semi-structured interviews. All Interviews conducted were conducted according to the same protocol and a case database was created. According to Quintão et al. (2020) “the protocol establishes the rules that are followed in the field, while the databases contain all the material collected by the researcher for each case” (p.270). The protocol was followed for the collection of primary data consisted of performing interviews, which contained open-ended questions asked in a conversational manner, which were recorded and then transcribed verbatim. There are two types of data collected through the interviews which aim to enhance the insights gained from literature. In total four interviews were conducted, two with industry experts and two with company representatives from the selected companies in the financial sector. The interviews with industry experts were conducted first and the information received was used to fine-tune the case interview questions. The basis

for the interview questions are detailed in Appendix III and Appendix IV, however, the interviews were conducted in a semi-structured manner.

The first type of interview was conducted with industry experts, their expertise is used to make general remarks about the financial sector from an investor and banking perspective. The selected experts are described in Table 4. Additionally, the insights gained are used as insights in the financial sector and used to put the observations from the case studies into perspective.

**Table 4. Expert interviews**

Label	Position
Expert A	Senior Partner at a company working towards education about sustainability in the financial sector
Expert B	Research Analyst with ESG specialization

Source: Own work

Furthermore, the second type of interview conducted were case interviews conducted with company representatives. They were conducted in similar manner as the expert interviews. The selected interviewees are described in Table 5.

**Table 5. Case interview information**

Label	Position	Type of Company	Geographic Region
Case A	Senior Associate Partner and CSR Specialization	Asset Manager	Germany and UK
Case B	Head of Strategic Risk Management	Consumer Bank	Austria and CSEE

Source: Own work

Expert A was chosen to complement Case B, while Expert B was selected to complement Case A.

The interview with industry experts and company representatives were based on similar questions, however the analysis of both interview types varies slightly. All interviews were coded to make results comparable and prepare the analysis. Further the coding of the interviews

increases the quality of analysis, as it improves construct validity, and it allows the comparability of multiple sources of information, and reliability of the analysis, as the same code can be replicated in other works and for other cases. Coding is tool for a qualitative analysis of data such as in this case interview transcripts (Saldaña, 2009). According to Saldaña (2009) coding is the “initial step toward an even more rigorous and evocative analysis and interpretation” (p.8). According to (Saldaña, 2009) coding „leads you from the data to the idea” and to “codify is to arrange things in a systematic order, to make something part of a system or classification, to categorize“ (p.8). The code used for the analysis of all interviews was based on the research questions developed. Based on the research questions and the literature review that was conducted (see chapter 1) the categories extracted are summarized in Table 6. Research question one resulted in the following three areas of interest: Relevance of Sustainability, The Motivation of companies how to approach the topic. How companies approach sustainability. Research question two resulted in the following three areas of interest: What goals are being set in terms of sustainability, how sustainability is addressed in practice, and how sustainability is reported on / communicated. Research question three resulted in the following three areas of interest: How sustainability is measured, what are the challenges companies face when addressing sustainability, and what the impact of sustainability efforts is on the companies.

**Table 6. Extracted categories of interest for the qualitative coding and case analysis**

Research Question 1	Relevance of Sustainability
	Motivation of companies how to approach the sustainability
	How companies approach sustainability
Research Question 2	What goals are being set in terms of sustainability,
	How sustainability is addressed in practice
	How sustainability is reported on / communicated
Research Question 3	How sustainability is measured
	What are the challenges companies face when addressing sustainability
	Impact of sustainability efforts on the companies

Source: Own work

This qualitative analysis was conducted for all interviews. For the expert interviews this was sufficient to extract the relevant information to allow a thorough analysis. However, the case analysis was further enriched by secondary data. The collection of secondary sources of evidence was limited to companies' websites and officially published reports such as Sustainability of CSR reports, if they were published. This is done to increase the quality of analysis by ensuring data triangulation, which is “the most important advantage presented by using multiple sources of evidence” (Ying, 2014, p.120) . The multiple sources of interviews that are coded are used to corroborate the findings and provide construct validity which is even further increased by the addition of the expert interviews.

### **3.3 Interviews with Industry Experts**

For the expert interviews there were two interviews conducted with industry experts to gain a better understanding of the current status quo within the industry. The topics discussed were based in the same questions as those for interviews with company representatives for the case studies. These conversations were used to gain a better understanding of the status quo in the financial industry. The experts were selected to complement insights gained from the multiple case studies, the experts were selected due to their background in banking and investing. Their insights are used to put the multiple case study in a larger perspective and enrich results. First, the Experts background will be shortly highlighted. Second, the main insights will be elaborated on, however this is structured according to the topics analyzed in the multiple case studies (Relevance of Sustainability, The Motivation of companies how to approach the topic, How companies approach sustainability, What goals are being set in terms of sustainability, How sustainability is addressed in practice, How sustainability is reported on / communicated, How sustainability is measured, What are the challenges companies face when addressing sustainability and what the impact of sustainability efforts is on the companies).

Expert A, has a strong background in banking and is currently a Senior Partner working in a German based company working on educating companies in the financial sector about the importance and implementation of corporate sustainability in their business practices.

Expert B, has a strong background in investment and is currently a Senior Equity Research Analyst at a global analytical company providing ratings research and risk policy advisory services. This expert has a strong specialization on Equity research on ESG factors in financial markets and is pursuing a PhD in this field.

The relevance of sustainability for every actor in the financial sector was highly emphasized by both experts, especially due to recent regulatory efforts. Expert B stressed that the efforts and relevance has “amplified over the past three years”. Expert A also observes this change in the past few years and further stressed that “what has fundamentally changed in society is this awareness of this probably why there is so much change going on from regulators and customers”. Both experts stressed the strong impact of growing regulatory pressure as a main force behind the sustainability efforts in the industry. Furthermore, Expert B observes additional pressures from the market side, despite not everybody investing in green products “people expect green products in the offer ”. This awareness is also observed by Expert B on an investor side and classifies them in two categories of investors that care about sustainability.

*“One group focuses on qualitative ESG products so ratings are not that helpful for investors who qualitatively evaluate their sustainability investments. ... they focus on relevant aspects, so they they look at products, market outlook and how this company really approaches sustainability issues”.*

However, Expert B also classifies a second group of investors

*“which buy this typical ESG products, which are based on quantitative assessment. So simply a large investment fund which invests in the top 10% of companies from a sector with the highest, let's say Refinitiv ESG score. So they are looking only on assessments of ratings and they do not dive deep into the strategy into market outlook etc.”.*

Overall, the relevance of sustainability efforts in the financial sector is legitimized by the extreme regulatory push in recent years.

Strongly intertwined with the relevance are the motivations of companies to engage in sustainability efforts. Both experts agree that most players are significantly motivated by the recent regulatory push, as they are required to fulfill. Expert B also highlights the importance investors place on sustainability issues. Expert A considers “the second motivator [to be] market

push is somehow increasing, but also existing right now” which goes along with an increased number of “funds connected with sustainable products... [and] there is demand for green bonds”. This existence of a large amount of sustainable products was also confirmed by Expert B who also mentions the existence of green bonds as well as

*“passive investment funds, for example, that follow some ESG indexes like the Dow Jones Sustainability Index .... Or actively managed funds [that] filter out top performance according to some standards for example, MSCI ESG rating, and they invest based based on this“.*

As relevance has been established and companies’ motivations have been analyzed. It shall be elaborated on how companies approach the complex issue of sustainability. The two experts have different observations on how companies approach.

On one hand, Expert A classifies three groups of companies that differ in how they approach the sustainability issue. The first group is “the group that wants to fulfill all their regulatory obligation ... but they really don’t care”. The second group

*“who have realized that the market has changed and that the customer is expecting them to be ... sustainable ... This group is very motivated, and it is not only about fulfilling regulation and they really want to change the strategy”. The third group “which is probably the biggest [group] is somewhere in the middle [between group one and two] they are compliant with regulations ... they understand there is a change, but they don’t want to be a leader of that [change]”.*

This group, according to Expert A may not even have

*“the perception that the market is changing, but rather have the opinion that the leaders and politicians are changing the rules ... but they don’t feel like the young generation will push them from a market point of view to change their portfolio of products”.*

On the other hand, Expert B differentiates the approach in different sizes of firms. The expert B acknowledges a large disparity in the knowledge and starting points from which small and large companies address corporate sustainability. While big companies have a “very well-developed strategic approach” to sustainability disclosure and are very transparent. Small companies with “market capitalization of less than €100 million” have a less well-structured

approach according to Expert B. Smaller companies acknowledge the importance placed on the issue by investors and regulators “but are a little bit lost on how they should approach this issue ...[and] with what is going on in the market with these new disclosure standards” based on Expert B’s observation. This problem is further increased by “limited resources and knowledge” smaller companies can allocate compared to large companies.

Another aspect where the experts gave different insights was the aspect of sustainability goals set by companies. While Expert A says that companies are currently simplifying the issue by for example “using CO2 as a main factor, which is misleading “. However, despite criticizing the quality of goals set by companies Expert A stresses that companies face significant challenges in quantifying sustainability because

*“if you go into the details it starts to be frustrating. Which activity is sustainable? By how much? How do you calculate it? Of course, there is a list on taxonomy activities published ... but it is still work in progress and there is a lot of discussion about the quality of the list”.*

Nonetheless, Expert B observes large companies to “focus on similar aspects and try to solve similar sustainability issues” as it is based on similar disclosure standards and stakeholder discussions. Expert B also observes the sustainability strategy to be “aligned with the overall company strategy and that most companies focus on the UN sustainable development goals in their public records”. When asked for examples of goals Expert B mentions “provide 100 hours of training per person in the company” as an example for goals set by companies.

When considering how sustainability is implemented in practice Expert B once more differentiates between small and large companies. According to Expert B larger companies “usually partner with NGO’s [and] they also provide finance to charities and consult different stakeholders” while small companies have more difficulties in implementation. Furthermore, Expert B observed a strong focus on stakeholder engagement such as Regulators, NGO’s, employees etc. In contrast to this Expert A does not yet observe common practices in implementation, despite “European regulation [being] common to everybody” there are significant differences in how rigorous and to what depth regulations are being enforced in companies. Additionally Expert A stresses that there are significant differences between

European countries. As there are on one hand some institutions in Central and Eastern Europe who fulfill the required regulation with very little effort compared to

*“Banks in Germany ... who were involved in ESG before ESG came up as a name because they were building their CSR rules for banking 20 years ago and these are the same people who are right now managing the banks”.*

Especially this difference in starting point and existing knowledge is observed by both Expert A and B. Furthermore, Expert A highlights that most companies are still in the process of implementing sustainability measures by “looking for solutions on how to quantify and put the taxonomy, for example into the internal systems”. There is another central aspect both Experts agree on that there is a substantial amount of greenwashing involved in current sustainability practices, with Expert A going as far as estimating that “right now I would say that 70% is greenwashing”.

When considering Communication and Reporting on Sustainability efforts Expert A strongly emphasized that there is no common communication, ways of calculating risk or quantifying sustainability yet and that according to Expert A this is part of the problem that but also highlights that currently we are in “the very beginning [and] everybody is learning all of the processes”. Which is in line with the Expert A’s observation is that current communication is more focused on marketing activities. Contradictory, Expert B perceives sustainability reports to have “structure and in some cases similar disclosure” that allow some comparability, especially due to existing frameworks such as GRI. Furthermore, Expert B perceives there to be other standardization attempts such as ratings “MSCI, Refinitiv or Sustainalytics. They try to address this issue for investors as it is very complicated to analyze all the indicators that the company reports”.

Closely linked to reporting and communication is the measurement of sustainability factors, both experts acknowledge the complexity involved in quantifying sustainability indicators. However, Expert B stresses the existence of frameworks such as GRI or SASB to guide measurement or Ratings which allow limited comparability between company’s performance. While, Expert A, stresses the complexity in quantifying activities, especially

*“how to quantify behavior of people, whether you are fair to your employees, whether the contractors are fulfilling the rules and how to quantify different contractors because you*

*have to quantify a person who is delivering materials to your company like he is responsible for 60% of your costs, but you also have to a company which is cleaning the offices. So that's why there are quite wide range of aspects to cover”.*

Expert A also mentions the “challenge of brown taxonomy ... that is not solved by leaders in politics right now”, which is left for companies to solve. Expert A notes that companies predominantly measure compliance with ESG factors they check compliance with each letter to check compliance.

Despite recent efforts to increase sustainability effort in the financial sectors there are still significant challenges. Both experts consider the main issue to be the quantifiability of sustainability aspects, due to the large number of soft factors involved. Furthermore, both experts acknowledge the special position small companies are in when addressing sustainability. Expert A recognizes the challenge of for example “small banks ... that don't have large budgets, and [they] started late, because ... nobody knew two years ago that it will be such a serious topic ... and budgets were not spread for this” type of challenge and yet they need to fulfill the same regulatory requirements as larger players. Expert B contributes to this argument that smaller companies may not only have “limited impact” on the environment and society and they possibly “do not provide products that are typically sustainable products that could solve sustainability issues”. Moreover, Expert A also emphasizes that there is currently a lack of experts in the implementation of sustainability

*“There are no experts on this ... if banks want to change how to calculate profitability on the credit card or risk profile on the credit score they got experts for that ... but if you need an expert to understand sustainable change and ESG factors and put it into the credit score, there are very few people in one country who are experts in both aspects”.*

Expert A acknowledges that this problem is even faced by large consultancies that advise companies on these issues. Expert B adds that further challenges that companies face, is “to gain trust from investors that [companies] really do what they write about” due to the large amounts of greenwashing taking place. Additionally, Expert B highlights that the comparability between companies' activities is limited, despite standardization attempts. Finally, Expert B highlighted that it is still

*“truly difficult to incorporate [sustainability] aspects into investment decisions, so how these aspects affect value ... because you can treat it as separate analysis ....., you can say this might affect competitive positioning or this might affect its costs structure ... but it is still quite difficult to model into a financial model ... and try to fit this aspect in your valuation”.*

Finally, considering the impact sustainability has Expert A claims that sustainability efforts may impact every part of a company’s businesses such as product lines, risk model, marketing communication and employee purpose. Furthermore, Expert A acknowledges that currently sustainability efforts relate to “high costs of implementation ... from training, from changing the system, the IT systems, changing the perception of your employees “but that “the positive impact will come”.

**Table 7. Overview of key arguments made by industry experts**

	<b>Expert A</b>	<b>Expert B</b>
<b>Relevance of Sustainability</b>	<ul style="list-style-type: none"> <li>• Highly relevant for all actors in the financial sector due to of regulatory requirements</li> <li>• Fundamental shift in the market which is 1) recognizing the importance of sustainability and 2) with expectation the market that companies address this issue</li> </ul>	<ul style="list-style-type: none"> <li>• Highly relevant for all companies in the financial sector due to regulatory requirements</li> <li>• Importance amplified over the past three years</li> <li>• Investors care increasingly about ESG implementation</li> </ul>
<b>Motivation of companies how to approach the sustainability</b>	<ul style="list-style-type: none"> <li>• Often regulatory driven</li> <li>• Increased demand for sustainable products (market push)</li> </ul>	<ul style="list-style-type: none"> <li>• Pressure from Regulators and Investors</li> </ul>
<b>How companies</b>	Three approaches to Sustainability issues	Different Approach for Small and Large Companies:

<p><b>approach sustainability</b></p>	<ul style="list-style-type: none"> <li>• Group 1: complies with regulatory requirements</li> <li>• Group 2: Sees and proactively reacts to changing market demand and expectation</li> <li>• Group 3: recognizes changing market trends but are not willing to lead change</li> </ul>	<ul style="list-style-type: none"> <li>• Small Companies have difficulty in how to approach the issue despite awareness due to limited resources available in terms of knowledge and budget</li> <li>• Large Companies approach the issue very strategic and existing standards are currently well developed</li> </ul>
<p><b>What goals are being set in terms of sustainability,</b></p>	<ul style="list-style-type: none"> <li>• Companies are simplifying the issue to define goals</li> <li>• Difficulty to quantify sustainability efforts</li> <li>• Public list of taxonomies published by ECB</li> </ul>	<ul style="list-style-type: none"> <li>• Strong alignment of sustainability with companies' overall strategy</li> <li>• Relevance of UN Sustainability Goals</li> <li>• Large Companies have similar goals and measures which are based on disclosure standards and discussions with stakeholders</li> </ul>
<p><b>How sustainability is addressed in practice</b></p>	<ul style="list-style-type: none"> <li>• No common practices established yet, despite regulation being common for all companies</li> <li>• Vast differences between different European Countries</li> <li>• Attempts to quantify sustainability and develop taxonomies that can be integrated into internal processes</li> <li>• Large parts of sustainability efforts are Greenwashing</li> </ul>	<ul style="list-style-type: none"> <li>• Large companies partner with NGO's and finance charities</li> <li>• Small companies are having difficulty in addressing sustainability</li> <li>• Strong focus on engagement of different stakeholder such as regulators, NGO's, employees etc.</li> </ul>

<p><b>How sustainability is reported on / communicated</b></p>	<ul style="list-style-type: none"> <li>• No common communication right now</li> <li>• No common standards on how to calculate and quantify sustainability</li> <li>• Sustainability is currently in the early stages of implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Non-financial reporting is required</li> <li>• Large companies use similar sustainability reporting standards such as GRI to quantify reporting</li> <li>• Small companies currently lack structure in reporting and communication</li> </ul>
<p><b>How sustainability is measured</b></p>	<ul style="list-style-type: none"> <li>• Extremely challenging to measure</li> <li>• Challenge is to quantify behaviour of people</li> </ul>	<ul style="list-style-type: none"> <li>• Existing Frameworks such as GRI or SASB to guide measurement</li> <li>• Sustainability Ratings such as MSCI, Refinitiv or Sustainalytics attempt to address issue of comparability</li> </ul>
<p><b>What are the challenges companies face when addressing sustainability</b></p>	<ul style="list-style-type: none"> <li>• Quantifying ESG factors</li> <li>• All companies have different budgets and existing knowledge, yet follow the same regulation</li> <li>• Especially challenging for smaller companies due to smaller budget and late start in addressing sustainability</li> <li>• Lack of expertise</li> </ul>	<ul style="list-style-type: none"> <li>• Small companies have much impact on the overall outcome</li> <li>• Small companies may not offer products suitable to modify to ESG factors</li> <li>• Challenge of quantifying sustainability due to complexity of the topic and soft factors</li> <li>• Difficulty to gain trust of investors due to common greenwashing</li> <li>• Comparability between companies is challenging</li> </ul>

		<p>despite attempts to standardize reporting</p> <ul style="list-style-type: none"> <li>• Difficulty to incorporate sustainability values in financial models and valuation of companies</li> </ul>
<b>Impact of sustainability efforts on the companies</b>	<ul style="list-style-type: none"> <li>• May impact every part of the organization</li> <li>• Currently connected with high cost for companies</li> </ul>	/

Source: Own work

### 3.4 Multiple case study findings

#### 3.4.1 Within Case Analysis

The analysis of the two cases is structured along the same areas identified, that were used to structure the expert interviews (see subchapter 3.1 and 3.2), and the analysis of the expert interviews (Relevance of Sustainability, The Motivation of companies how to approach the topic, How companies approach sustainability, What goals are being set in terms of sustainability, How sustainability is addressed in practice, How sustainability is reported on / communicated, How sustainability is measured, What are the challenges companies face when addressing sustainability and what the impact of sustainability efforts is on the companies).

#### Case A

Case A is a German partner-managed investment management company providing quantitative portfolio management. The company serves customers in Germany and the United Kingdom. The company specializes in data-driven asset management for institutional investors. The Interview was conducted with a Senior Associate Partner at the company, who is working on the business strategy of the company.

Case A considers sustainability highly relevant to their business, on one hand, mainly due to their assets under management they have a “relatively high impact compared to smaller companies in terms of carbon footprint, water consumption or paper consumption”. On the other hand, due to strong pressures from regulators to pursue sustainability. According to the respondent from Case A, it is important to consider two different aspects of sustainability

*“One what impact do we have? That was the consideration ... on sustainable indicators like the environment, like social and the society, but also on governance structures. The other perspective is to consider that developments such as climate change can of course also have impact on us and our location could be directly affected by possible natural disasters or things like that.”*

Case A’s approach to addressing sustainability is predominantly focusing on sustainable investing. The company takes ESG criteria into account for almost 50% of its managed assets and follows the guidelines for socially responsible investment in its investment process. Moreover, their background in quantitative asset management makes them suitable to tackle the challenge of quantifying sustainability factors, such as business engagement, risks, opportunities, key figures, external effects, and SDG’s. Furthermore, the company in the process of defining its purpose realized that pursuing sustainability is very closely linked to pursuing sustainability efforts in their organization. Therefore, their decision to pursue sustainability in their strategic efforts was motivated by their “inner conviction and the responsibility we have to our stakeholders”. However, the respondent also argued that sustainability also makes sense to pursue from a business perspective as

*“If you're only concerned about the business perspective, you're going to run into a problem.. If everyone behaves in this way, there will be no planet in the future. If there will be no planet in the future, there will be no society. And if there is no more society, no one can operate businesses. That is exactly the so-called donought principle. In this respect, it is more than time that all companies become aware of this situation and begin to cultivate the basis that makes business operations possible. And that is to have an intact planet, which maintains an intact society, in which one can then also operate a profit-oriented business. And if you don't take that into account today, you might still have three or four years in which you can do business.”*

The company is currently in the development of specific goals to pursue and measure its sustainability by aiming to develop “KPIs both on the investment side, but also in the way

we do business as a company and how we act as a company”. Case A is currently extremely involved in advancing its sustainability efforts.

*“This has gone so far that we have included it on our roadmap for this year. The roadmap sets out the goals for the company, so to speak, and the aim is to work out a sustainable corporate positioning in this one goal.”*

Nonetheless, they are currently not reporting on sustainability issues, yet they have carefully analyzed existing reporting initiatives and are aiming to provide standardized reporting soon, aligned with the SASB standard unless there will be a different regulatory requirement specified. Furthermore, they address sustainability issues by actively seeking out knowledge to equip themselves appropriately for this transformation, to develop an understanding of their status quo and their targets to address in their future sustainability report.

However, also Case A acknowledges that there are significant challenges to still overcome, there are still internal challenges to overcome, such as “develop a common understanding about the complexity of sustainable business management”, especially in the top management. The understanding of the issue and the understanding of how it impacts the financial sector “still needs some convincing”. Furthermore, the respondent recognizes that corporate sustainability in the financial sector

*“is still not very structured. The development is now progressing gradually because particular interests are now becoming common interests, so to speak, and both the business community and reporting standards are entering into dialogue and trying more and more to draw a uniform picture.”*

Additionally, the company of Case A has observed a big benefit of their sustainability efforts, it resulted in “a very strong merging of employees, conviction and the now quasi in line conviction that the company to do something for society and the environment”.

## **Case B**

Case B is a publicly listed Austrian-based bank operating in five CSEE countries: Croatia, Slovenia, Bosnia & Herzegovina, Serbia, and Montenegro. The company serves

approximately 1 million customers. The company focuses strongly on consumer and small and medium enterprises (SME) banking, with a growing focus on consumer and SME lending activities and payment services. The interview was conducted with the Head of Strategic Risk Management, who is two levels below the board and is also the single point of contact with the regulatory authorities.

Case B considers sustainability currently to be very relevant to their operations, due to a “very strong push from the investor side”, as well as owners and due to the required reporting and regulatory attention. Current actions are “of course supervisory driven” as regulators “de facto requires that everyone contributes a part to the Green Transition”. The company observes the importance of the issue to a large variety of stakeholders; however, the respondent perceived that different stakeholders place different emphasis on a variety of ESG factors. This is perceived to be extremely challenging for the implementation as on one hand, “the market side, in terms of customers, they care about the S of ESG, while E is not that driven by the markets” but on the other hand the company “gets pressure from regulators on climate and environmental factors”. This puts management in some sort of ambivalence that

*“from the market side our customers would want to be much more social ... if we could choose freely, we would focus more on the social, so that would be donations from the corporate side ... but there is pressure from other stakeholders such as investors who see environment and climate as the greater issue. That means you have to somehow cover both topics”.*

The objective of many regulations introduced by the ECB aim at considering and addressing and managing the risk banks are exposed to therefore the focus of many risk-mitigating sustainability behaviors “is more like we're saving the company from the world”. The respondent stressed that these risks, among others, have always been addressed, however, “there was a very big increase from a risk perspective because there are regulatory requirements” now. In line with these, the company performed multiple analyses that resulted in the result that there is no immediate material to their quality of assets.

Another, motivator for the company is the human resource perspective, engaging in sustainability practices can give employees the feeling like “they can contribute something through their work”.

Case B is currently “still in the process of defining [sustainability goals] and we have big discussions over it”, they are facing difficulty in determining which KPIs to set. According to Respondent of Case B, the goals and targets are not formalized yet due to the small size of the bank. In their non-financial report, the company reports on factors such as space optimization, energy saving, CO2 emission reductions, and travel management. The company tries to carefully evaluate all implications of any possible goals they set with the aim of not wasting resources and avoiding greenwashing. The company assessed its loan portfolio and concluded that there is no significant exposure to climate and environmental risk. Yet the company already has blacklists in place which comprises limits to their business activities with certain industries. Additionally, there are plans to save CO2 emissions.

The company is engaged in all required non-financial reporting, however in recent times “there has been more focus on it, which will grow in terms of scope and at the same time, more is written in the annual financial statement, perhaps more from a risk perspective” though. Case B acknowledges that reporting has very much increased in the last years, regardless the company has been facing difficulty incorporating sustainability in its business model and products. Furthermore, they adapt communication tools to the different stakeholders that take interest in the sustainable development of the company

*“For supervisory authorities ... we have a working group which delivers information to the ECB, which is very active in asking for it ... that’s quite a push ... On the investors' side, we are communicating more and more via reports and the annual general meetings ... with our employees, it is still in the process, when there are more concrete goals, we would communicate this via internal platforms”.*

However, the currently existing communication is rather qualitative, as Case B considers the quantifiability of sustainability extremely challenging.

Current challenges Case B is facing in the implementation are the large amounts of bureaucracy involved in fulfilling the regulations which are considered “extremely imprecise on the part of the supervisory authorities, ... there is a lot of responsibility and brainstorming transferred to the banks”. Furthermore, the company perceives it difficult to adapt its products and business model to this sustainability trend as

*“as a consumer bank that sponsors SMEs we do not finance Shell or other companies for example... as far as our portfolio is concerned, we have a clear conscience, but we don't finance the big renewable energy projects, that's just not our business model.”*

Additionally, they perceive challenges in quantifying sustainability measures and goals that are coherent and useful in contributing to lasting change. The respondent also stressed that it is difficult to understand what exact measures to take, as many measures may positively impact one ESG factor but negatively impact another.

*“For example, we have considered moving more to digital, so that we have fewer branches, stores, and bottom-line less CO2 emissions which is sustainable ... we save emissions on the commute, ... we all have a laptop at home and have access to our home office that means there is a massive effect on our CO2 emissions, but the issue of digital customers is not something that makes you look greener or more sustainable. If you say you're closing branches because it also has a negative effect on the S of ESG”.*

Another challenge is to remain focused-on profitability, while also implementing sustainability practices. Overall, there is no perceived “great value-added yet ... neither for the environment nor for the companies”.

### **3.4.2 Cross Case Analysis**

Now the two cases will be compared, and similarities and differences will be highlighted. The structure of the previous parts will be maintained. The key takeaways from both cases are compared in Table 8.

Considering both cases they share the understanding of the significant relevance sustainability has for their respective companies. However, they perceive the relevance from different points of view. While Case A recognizes the increase in regulations, their main motivation is due to them seeing their responsibility and other internal factors. Case B appears to be motivated by outside sources such as pressure from investors and regulators. This difference in internal and external incentivization is also seen in the motivation the companies have chosen. While Case A considers sustainability efforts a part of their purpose, however, they also stress their importance to various stakeholders. Therefore, for Case A the motivation is also partially external. This external interest of multiple stakeholders is common in both

Cases A and B from stakeholders. Case B additionally, is motivated by the risk mitigation perspective.

The approach both companies take also differs, which however is attributable to their difference in business models. On one hand, Case A is an asset manager, whose approach to addressing sustainability is through their investment process by incorporating sustainability standards and ESG quantification in their investment decisions. On the other hand, Case B approaches sustainability from an inside-out approach. This approach is based on the goal of the company to cause less harm to the outside environment. This approach is reasonable, due to the business model focusing on financing small SMEs and consumer loans. This product and service are a lot harder to adapt to sustainability practices compared to investment decisions. Additionally, this focus may be caused due to the position of the respective interview partners.

Both companies, Case A and B both are currently still in the process of defining specific goals to measure their sustainability performance. While Case B is finding it difficult to find suitable KPIs. Whereas Case A did not seem to face such challenges yet. However, as both companies are still working to develop key measures and goals these insights are limited in their meaningfulness. This ongoing process can also be observed when taking a look at how both companies incorporate sustainability practices, both companies are in the early stages of implementation. Case A is obtaining knowledge and establishing their existing strategic positioning while Case B is also trying to consider the best possible approaches that create lasting impact without greenwashing. As Case A is not a publicly listed company and Company B is a publicly listed company their required reporting differs. Company B is required to report on financial as well as non-financial reporting, which they are engaging in, as required by regulation and have increased their efforts in recent years. Additionally, they are specifically targeting various stakeholders through appropriate communication channels depending on the stakeholder. Case A is not required to report on its sustainability efforts, however, as regulations have been becoming stricter the company is trying to proactively address the issue of sustainability reporting. They utilize standardized reporting initiatives to guide and standardize their reporting approach. Accompanied with the reporting issue is the concern for how sustainability is measured. Both companies have not yet found final solutions for the measurement of sustainability.

Both Companies perceive there to be significant challenges connected with the implementation of sustainability in their respective businesses. Nonetheless, Case A’s challenges, however, are largely about internal aspects such as convincing top management of the complexity and a common understanding of the term sustainability and its implication for the business. However, Case B considers different challenges to be central to their sustainability efforts. Case B faces significant challenges in adapting its business model and products to the sustainable transformation, and therefore also finds it challenging to create value through sustainability. Additionally, Case B contemplates the difficulty in establishing good practices with a positive impact that is also quantifiable. However, the largest perceived challenge for Case B is the imprecise regulation that creates large amounts of bureaucracy.

The impact of sustainability efforts is perceived differently in both cases. While Case A perceives a very strong internal alignment of employees behind the company's purpose. While Case B does not see any positive impact on the company or environment yet and doubts it will be created in the future.

**Table 8. Overview of key arguments from the case analysis**

	<b>Case A</b>	<b>Case B</b>
<b>Relevance of Sustainability</b>	<ul style="list-style-type: none"> <li>• High impact due to assets under management</li> <li>• Regulatory Requirements</li> <li>• Two perspectives on sustainability: 1)What impact do we have and 2) How does climate change, etc. impact us</li> </ul>	<ul style="list-style-type: none"> <li>• Very important due to regulatory pressure</li> <li>• Investors value Sustainability</li> <li>• The difference in focus between consumers and regulators</li> </ul>
<b>Motivation of companies how to approach the sustainability</b>	<ul style="list-style-type: none"> <li>• Part of the company's purpose and reason for existence</li> </ul>	<ul style="list-style-type: none"> <li>• Strong interest from various stakeholders</li> </ul>

	<ul style="list-style-type: none"> <li>• Responsibility to society and other stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Addressing risk related to environmental factors</li> </ul>
<b>How companies approach sustainability</b>	<ul style="list-style-type: none"> <li>• Focus on sustainable investing</li> </ul>	<ul style="list-style-type: none"> <li>• Inside-out perspective</li> </ul>
<b>What goals are being set in terms of sustainability,</b>	<ul style="list-style-type: none"> <li>• In the process to define goals</li> <li>• In the process to define KPIs ( investment and company side)</li> </ul>	<ul style="list-style-type: none"> <li>• In the process to define goals</li> <li>• Nor formalized yet</li> <li>• Difficulty in assessing suitable goals</li> </ul>
<b>How sustainability is addressed in practice</b>	<ul style="list-style-type: none"> <li>• In the process to work out sustainable corporate positioning</li> <li>• Actively pursuing knowledge to address the topic</li> </ul>	<ul style="list-style-type: none"> <li>• Selective investment (Blacklist)</li> <li>• Avoiding Greenwashing</li> </ul>
<b>How sustainability is reported on / communicated</b>	<ul style="list-style-type: none"> <li>• Currently not reporting on sustainability</li> <li>• In the process to develop and implementing standardized reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Non-financial reporting</li> <li>• Stronger focus compared to last year</li> <li>• Through various channels depending on stakeholders</li> </ul>
<b>How sustainability is measured</b>	<ul style="list-style-type: none"> <li>• In the process to define KPIs</li> <li>• In the process to evaluate the status quo and target</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to quantify</li> </ul>
<b>What are the challenges companies face when addressing sustainability</b>	<ul style="list-style-type: none"> <li>• Development of a common understanding of what sustainability entails</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to adapt products to sustainable development</li> <li>• Creation of real value without greenwashing</li> </ul>

	<ul style="list-style-type: none"> <li>• Sensitivity toward the relevance of the topic in top management</li> <li>• Overall not a very structured field</li> </ul>	<ul style="list-style-type: none"> <li>• Quantifying sustainability</li> <li>• Remaining focused on profitability</li> <li>• Duality of the impact of measures</li> <li>• Imprecise regulation which includes a lot of bureaucracy</li> </ul>
<b>What the impact of sustainability efforts is on the companies</b>	<ul style="list-style-type: none"> <li>• Strong internal alignment of employees</li> </ul>	<ul style="list-style-type: none"> <li>• No added value yet</li> </ul>

Source: Own work

### 3.5 Limitations

When conducting research, it is crucial to acknowledge limitations to research conducted, this matters for both the theoretical as well as empirical part of the research.

First, the literature review is limited by the revised literature, as the field of sustainability is a rather large research area that continuously keeps growing. When conducting the literature review the validation of relevant sources and research has shown to be challenging. Even though there are very current sources many focus on very different aspects as the field of study has shown to be extremely diverse. Furthermore, some sources used for supporting claims are rather old, however, it was attempted to complement any findings from a long time ago by other authors with similar findings in recent years.

Additionally, the case selection has several limitations such as the small number of cases selected which only represent a snapshot of the actors in the market, therefore any generalizations made are limited in their validity. Further, the comparability of cases is limited due to the existing differences between the cases. Furthermore, the collected data was conducted through interviews in a conversational setting, thus the evaluation of statements given in these interviews may be based on the respondent's judgement. Therefore, the result's generalizability may be limited. Further, the research was conducted qualitatively, rather than quantitatively.

## **Chapter 4. Discussion of research findings**

The following discussion of the findings of this research project is structured according to the previously developed research questions, to analyze the incorporation of sustainability practices into corporate models and potential obstacles to their implementation. To conduct this analysis, three research questions were proposed in chapter two to explore the motives, strategies, and barriers that companies experience. To conduct this analysis, three sources of data: literature, interviews conducted with industry experts, and cases, were investigated separately. After the separate analysis of each data source had been conducted, the conclusions were developed based on the integrated research.

### **4.1 The motives behind incorporation of sustainability practices by companies in the financial sector**

Considering the previous literature surrounding this question it can be seen that a large part of research is based on evaluating the potential for investment in sustainability and CSR efforts to generate financial returns for companies. Despite the empirical evidence presenting mixed findings many studies (Orlitzky et al., 2003) have found a positive relationship between companies' financial and social performance (Orlitzky & Benjamin, 2001). One explanation for the overall mixed results was conjectured by Salzmann et al. (2005), who proposed that there is an optimal level of CSR engagement, and from that level, any variation beyond a certain point of engagement could present a negative impact. As most research on the relationship between financial and social performance focuses on CSR rather than sustainability, therefore it is important to demonstrate that other scholars such as Alshehhi et al. (2018) have shown that conjecture also holds for sustainability practices and corporate financial performance.

Additionally, research on the value generated through sustainability and CSR efforts revealed that companies benefit in various ways from their efforts. Among these are cost and risk reduction (Abdi et al., 2021; Antonic, 2019; Carroll, 2021; Jadoon et al., 2021; Kurucz et al., 2008; Salzmann et al., 2005), the potential to create a competitive advantage (Kurucz et al., 2008; Stocker et al., 2020; Wheeler et al., 2005; Wijethilake, 2017), reputational and legitimacy benefits (Kurucz et al., 2008, Backhaus et al., 2002; Lu et al., 2021), and the possibility to create synergistic value (Kurucz et al., 2008; Orlitzky 2008). In previous literature, stakeholder theory was the most predominantly used theory to explain the value of sustainability efforts, in the financial sector and many other industries. Stakeholder theory was according to Carroll (2021)

initially developed by Edward Freeman in 1984 and is based on the idea that a company has multiple stakeholders to whom they have various responsibilities (Schwartz & Carroll, 2008). Therefore, companies are required to address not only shareholders but rather a larger amount of interest groups that are affected by the company's business activities (Salzmann et al., 2005). Based on this approach multiple researchers argue that pursuing corporate sustainability creates value for all stakeholders, and therefore should be considered a responsibility of companies (Abdi et al., 2021, Stocker et al., 2020, Greenwood 2007). This was also acknowledged by (Bakken, 2022) that stated that companies are no longer prioritizing only shareholders as their dominant audience, they are choosing to increasingly focus on "stakeholder capitalism".

Considering the information collected about the financial sector and the expert interviews, there were multiple observed reasons for companies to engage in corporate sustainability. It was found that all sources emphasized that corporate sustainability was highly relevant to the financial sector. Furthermore, many researchers claim that the financial sector is directly critical to achieving successful sustainable development (Bakken, 2022). Therefore, it is evident that regulators should exhibit significant concern and attention to promoting sustainability. This regulatory pressure was observed by both experts and both cases and corroborated by most literature. This push towards sustainability was also seen within the market, according to both experts, as there has been a larger observed demand for "green products", especially from investors. However, the motivations to engage in sustainability from a corporate perspective differ. For example, (Boffo & Patalano, 2020) names the reasons to be the growing understanding among companies that considering ESG factors does not lead to poor returns, that societal values increasingly lead to investment decisions and that the perspective of investors changes towards a more long-term perspective. However, both experts agreed that the increasing regulatory push is a large reason for most companies to now engage in corporate sustainability efforts. Regardless, Expert A stressed that some market leaders also pursue sustainability practices due to their internal convictions and changes in market demand.

Looking at the data collected through the multiple case studies, it was found that the analyzed companies share the understanding that sustainability is highly relevant to their respective businesses. While Case A's motivation is internally driven, Case B's motivation appeared to be predominantly driven by external requirements and interest in the topic. Another

similarity between the cases is that for both companies multiple stakeholders showed significant interest in the topic and pressured the companies to incorporate sustainable practices to the company's business practices and strategies. Despite these similarities in relevance and external pressures, the companies approached the subject from different angles, which however is attributable to their differences in business models. Case A incorporates ESG measures in their investment process, which is related to their core business, while Case B worked towards minimizing their impact on society, which stems from the fact that their core business offers limited opportunities to integrate sustainability into their core business practices.

Overall, it can be concluded that there is a strong theoretical claim that a firm's performance can be increased through engagement in sustainability efforts. This engagement may be achieved through various mechanisms and has been explained by multiple theories. In practice, it is further apparent that the relevance is established, even if the connections are partially attributed to increasing regulatory pressure. By investigating the multiple case studies, it can be seen that the motivation and approach to engage in sustainability efforts varies among companies. Therefore, it can be said that there is a multitude of reasons companies engage in sustainability practices.

#### **4.2 The sustainability practices of companies in the financial sector**

The literature on this question has identified that there is indeed a gap between a company's understanding of the importance of incorporating sustainability measures in their strategies and the effective execution of these strategies in a way that would provide measurable results. Multiple studies were conducted by researchers such as Engert & Baumgartner (2016), Engert & Baumgartner, (2016), Haessler, (2020), and Wijethilake, (2017), found that companies are more skilled at formulating strategies than successfully implementing them. Unfortunately, this also limits companies' ability to benefit from sustainability strategies. Although many firms regard the formulation and implementation of sustainability strategies generally as important (Calabrese et al., 2012), they are still not always able to translate this into a successful implementation (Epstein & Roy (2001), Engert & Baumgartner, 2016). This gap is not only observed in practice but also in research (Haessler 2020).

The complexity in implementation is because sustainability needs to be integrated into the entire company to be successful (Espahbodi et al., 2019; White, 2009). As this issue needs to be implemented on a company-wide level, managerial control is typically needed to achieve successful implementation (Engert & Baumgartner, 2016; Haessler, 2020; Jadoon et al., 2021; Wijethilake, 2017; Windolph et al., 2014). Additionally, the difficulties in measurement of sustainability, and sustainable impact can make implementation and the measurement of a successful implementation challenging (Engert & Baumgartner, 2016). A strategy must be suitable for the organization (Engert & Baumgartner, 2016) and the culture of the company, to have a successful implementation (Barnett et al., 2015; Barney et al., 2001; Engert & Baumgartner, 2016; Galbreath, 2009; Haessler, 2020; White, 2009)

As a result, it may be extremely challenging for companies to implement sustainable practices since there are no formal processes or guidelines that organizations can follow to become more sustainable and there is still relatively little knowledge about control mechanisms and performance measurements to measure progress in this area. These both present barriers to the mainstream adoption and implementation of sustainable business strategies (Wijethilake, 2017). Moreover, firms often consider sustainability to be a tradeoff to profitability (Haessler, 2020), which many companies consider their primary task (Ball, 2011). This often results in managers choosing short-term profitability over sustainability (Epstein et al., 2015).

Considering the data collected about the financial sector and the expert interviews, it was determined that there is an increasing trend for companies to no longer use sustainability solely as a marketing tactic, as there is a growing understanding that sustainability also contributes to the firm's value proposition (Bakken, 2022). Changes in customer demands and investor expectations have even required banks, insurers, and investors to redesign their business models (United Nations Environment Programme, n.d.). This has led to companies no longer exclusively prioritizing shareholders as their dominant audience and has prompted a focus on evaluating the perspectives of multiple stakeholders (Bakken, 2022). Presently, there is a growing number of financial institutions choosing to report on their sustainability practices (United Nations Environment Programme, n.d.). This, however, may also be attributed to the increasingly strict regulations imposed on companies by the federal government and other regulatory authorities (Boffo & Patalano, 2020). Industry experts attributed both of these reasons: regulatory pressures and the rising popularity of firms to take a holistic view of

stakeholder engagement, to be reasons for the increase in sustainable practices in companies. However, Expert A postulated that despite the European regulations being common to all actors, there are still significant differences in the rigor and depth of enforcement in companies that enforce regulations. Both experts, A and B, emphasized that companies are still early in the development process of implementing and measuring sustainability in their respective businesses and that these implementation efforts are ongoing and have not yet yielded common practices that go beyond fulfilling the required regulation. Expert A also brought emphasis to the point that there is not yet a clearly defined best practices for companies, nor a commonly accepted methodology of calculating risk or quantifying sustainable impact. Similarly, Expert B noted that while sustainability reports are growing increasingly structured due to standardization efforts, which have led to the adoption of some frameworks and ratings in an attempt to increase the comparability of these strategies, the success has been limited.

Looking at the information collected in the multiple case study the observed cases, it was clear that both cases, A and B, are in the very early process of implementing sustainability practices in their businesses. Both companies are currently in the process of defining specific sustainability-related, quantifying the success metrics of those goals, and also determining a methodology for measuring the success of their overall sustainability efforts. Case B faces larger regulatory pressure as a listed company and appears to have advanced slightly further than Case A. However, Case A's efforts are less driven by external regulations and may be considered more proactive.

In conclusion, there is presently a demonstrated lack of successful implementation of sustainability strategies. Implementation proves to be a significant challenge for companies due to a lack of formal processes and guidelines to follow. In current practice, many companies are actively engaged in developing processes, measurements, and guidelines to implement their sustainable strategies and operations. However, these tools are still in the early phases of development and may be highly particular to the industry and company. There has yet to be established a universally applicable protocol or best practices, which presents a barrier to growth in this area. Therefore, it is too early to answer this research question definitively.

### **4.3 Results and challenges of sustainability practices faced by companies in the financial sector**

In an evaluation of the literature relevant to this question, it is of note that there is a significant lack of knowledge on how a company should best implement (Wijethilake, 2017), report on (Bartley et al., 2017), and measure the impact of sustainability (Bartley et al., 2017; Wijethilake, 2017). The complexity of the issue makes a qualitative assessment difficult (Beck et al., 2010; Radu & Francoeur, 2017 Helfaya & Whittington, 2019 Lu et al., 2021) and despite there being various attempts to standardize sustainability reporting (Antonic, 2019), there is not yet one globally applied standard for non-financial reporting (Ferreira Quilice et al., 2018). Furthermore, much of the data available is self-reported and based on estimates (D. J. Wood, 2010, p.69). An additional challenge is that there are no presently established KPIs (Helfaya & Whittington, 2019; D. J. Wood, 2010). This leads to companies' reporting presenting variations in size and scope (Bartley et al. (2017)). This makes the assessment of companies' performance difficult to compare, both against their past performance (Ning et al., 2021, Lu et al., 2021) as well as between companies (Bartley et al. (2017)). Furthermore, it is easy for companies to omit and distort the information published in their reports (Delmas & Burbano, 2011; Laufer, 2003) due to a lack of regulated reporting standards and externally verified information (Owen & O'Dwyer, 2008). In addition, there may be further issues with the assessment of the information disclosed by companies concerning their sustainability practices (Owen & O'Dwyer, 2008). These issues lead to criticism regarding the reliability and trustworthiness of the issued reports, and even, potentially, the companies themselves (Jadoon et al., 2021). This leads to a gap between the companies that issue reports and their target audiences (Helfaya & Whittington, 2019). In the past, there has been an emergence of scandals regarding the greenwashing of company practices, which has not helped the credibility of self-issued reports (Bowen & Aragon-Correa, 2014; Laufer, 2003; Owen & O'Dwyer, 2008).

Another important takeaway from the literature is that most research is based on the actions of large firms, even though small and medium enterprises face the same challenges with implementing sustainable processes, and these challenges may be further exacerbated by a lack of resources (Cantele & Zardini, 2020, Lu et al., 2021).

Considering the data collected about the financial sector and the expert interviews, both experts stress the complexity involved in quantifying sustainability indicators. Both consider

this quantifiability of sustainability aspects, due to the large number of soft factors involved. The lack of standardized measurements and reporting can further lead to issues with the accounting of sustainability. This includes standardized data gathering, measuring efforts, and analyzing the existing data (Bakken, 2022). Besides, measurement and reporting issues the expert interviews revealed even more challenges companies face. Expert B highlighted that the existing reporting and standardization initiatives do not yet yield sufficiently comparable data and the difficulty in getting investors and other stakeholders to trust in the sincerity of sustainability efforts, as there is significantly greenwashing taking place. These large amounts of greenwashing are also observed by Expert A. Furthermore, both experts highlight the difficulty that smaller companies have in adapting to existing regulations and the sustainability transformation. This is linked to smaller budgets, resources, and knowledge. Moreover, this problem is also linked due to the disparities in existing knowledge and the different starting points for various companies.

Considering the information collected through the case studies, it can be concluded that both companies still face significant challenges in incorporating sustainability in their business operations. These issues are all accompanied by the issues companies face when trying to establish reliable reporting, and they exacerbate concerns about how companies can appropriately measure and quantify sustainability. This can be considered the fundamental challenge that needs to be overcome to seriously advance sustainability efforts. Both companies, Case A and B, are still in the process of integrating these efforts into their strategy and business operations and have not yet found final solutions for finding reliable measurement metrics of sustainable practice and outcome. However, some differences can be observed in the challenges that both cases face. On one hand, Case A's challenges primarily involve harnessing the internal conviction and motivation of its management and developing an understanding of sustainability issues and how to address them. Conversely, Case B faces tremendous challenges in adapting its business model and products in a way that is sustainable due to the nature of its value proposition and industry, and the bureaucracy involved regarding the existing regulations with which they must comply.

Overall, it can be concluded that there are tremendous challenges that must still be overcome for a successful sustainable transformation within companies. All three data sources that were used for this analysis, existing theoretical literature, industry information from interviews, and case studies, all presented consistent challenges. One key challenge that was identified in this research project is the lack of measurability in ESG and sustainability factors. This lack of measurability leads to a significant number of compounding challenges that face companies trying to implement more sustainable strategies. Without a strong methodology to measure outcomes, it decreases the ability of companies to measure the success of their practices, which can make it difficult to evaluate a certain approach as successful or not. Furthermore, it decreases their ability to report their progress externally. This lack of reliability also makes it difficult to compare their progress to other companies and can decrease the reliability of the company with consumers. Furthermore, a lack of knowledge and resources can present additional challenges for smaller enterprises making efforts to improve their sustainable development.

## **Conclusions**

This thesis aims to investigate the links between the motivations, processes, and results of engagement in corporate sustainability practices by companies operating in the financial sector. The conducted research investigated the motivations, processes, and challenges of companies in the financial sector addressing the topic of corporate sustainability and pursuing efforts toward sustainable development within their corporate practices.

Firstly, this study finds a strong theoretical justification for sustainability measures creating financial value and additional benefits for companies, such as reputational benefits such as cost and risk reduction, the creation of competitive advantage, the building of reputation and legitimacy, and the creation of synergistic value. Despite many firms not yet experiencing the benefits that were theoretically established, the empirical research shows clearly that the importance of the topic is ubiquitous. The relevance is established, partially due to regulatory pressure and companies are in the process to implement sustainable strategies and practices in their business activities.

Secondly, there is a strong theoretical gap in the literature on specific approaches to how to implement sustainability strategies and this gap translates into practice. Literature has yet to reveal unanimous practices to guide implementation for companies. It has become evident that the implementation in practice is an ongoing process, and there is currently a lack of common practices and formal guidelines on the implementation that can guide companies' actions. It has become apparent that empirically sustainability practices and strategies are in the early stages of implementation and that there are still significant challenges that are yet to be overcome.

Thirdly, among the main challenges that are currently hindering companies to implement sustainability strategies, is a lack of a common understanding of the topic and its implication and the difficulty in measuring sustainability and its implementation. This contributes to troubles in reporting progress. The lack of measurability also causes criticism in the reports, regarding their quality, reliability, and comparability. Furthermore, companies face challenges

Based on this dissertation it is clear that there is a significant need for further research on the topic of sustainability and successful implementation within companies.

There is yet to be a convincing and commonly accepted definition of sustainability and sustainable development that is commonly accepted by all actors in literature and practice. Also, the separation or comparison between CSR and sustainability is very unclear and varies between researchers and companies. This leads to a lot of difficulty in theoretical research, implementation, and formulation of strategies.

Additionally, there is a significant lack of theoretical research on the implementation of sustainable practices and strategies. There is significantly more research on strategy formulation. There is a significant lack of research on how to implement sustainable practices in a successful, value-adding way.

Another key aspect that needs further research is the measurement of sustainability. As there are so many soft factors involved, which need to be quantified. Quantification is especially important for the financial sector, as they need quantifiable measures to include in their business practices and internal processes. Although, quantifiable measurement is crucial for strategy formulation, objective measurement of progress, and reporting.

## **Appendix**

### **Appendix I - List of Figures**

Figure 1: Connections of Definitions SD, CS and CSR

Figure 2: Wheelers Framework for classifying organizations

### **Appendix II - List of Tables**

Table 1: Overview of different types of Business Case for CSR

Table 2: Overview about most common standardization attempts of reporting

Table 3: Case Selection

Table 4: Interviewed Experts

Table 5: Case Interviews

Table 6: Extracted categories of interest for the qualitative coding and case analysis

Table 7: Overview of key arguments made by industry experts

Table 8: Overview of key arguments from case analysis

## **Appendix III - Guiding interview questions (for Multiple Case Study)**

### **General Questions**

1. Please describe how Your company approaches sustainability issues. How did it evolve over \_\_\_\_\_ time?  
If possible, please indicate key milestones in this journey, giving specific examples.
2. Are there any common practices concerning sustainability (goals) in the financial sector?
3. Is non-financial reporting required in the financial sector? Which standard is most common?
4. Do you currently report on your sustainability practices – if so how do you report on sustainability? If not, why?

### **Motivation for engaging in Sustainability**

1. Why did Your company decide to implement sustainability principles into your operations (and strategy)? If possible, please provide examples.
2. What sustainability trends are relevant for your company? (Social Development Goals, Social Reporting, etc.)

### **Implementation of Sustainability**

1. Has Your company defined specific sustainability goals? - If so what are they? / If not, why not and are you planning to do so?
2. Do you consider sustainability goals relevant for Your company – why / why not?
3. What are the specific sustainability-related practices/ programs/ initiatives performed by Your company? Why these? (e.g., marketing initiatives; HR programs/employee volunteerism; everyday operations, sustainability reporting, strategy).
4. Do you collaborate with or involve third parties in your sustainability programs/practices/initiatives? Who are they (NGOs, other companies, public institutions, stakeholders)? How do you communicate your efforts to your stakeholders?
5. What are the challenges in addressing sustainability (goals) at your company and what are the challenges of implementation of sustainability-related practices/programs/initiatives? Which of those is the biggest challenge and why?
6. Does Your company measure sustainability-related progress and goals? If not, why?

### **Outcomes of sustainability efforts**

1. What are the lessons learned from the implementation of sustainability-related programs/initiatives?
2. How has the implementation of sustainability programs/practices/initiatives affected Your company operations, processes, and strategy?
3. What are the biggest benefits and disadvantages of pursuing sustainability (goals)? Why?

## **Appendix IV - Guiding interview questions (Expert Interviews)**

### **General Questions**

1. Please describe how companies approaches sustainability issues. How did it evolve over time?
2. Are there any common practices concerning sustainability (goals) in the financial sector?
3. Is non-financial reporting required in the financial sector? Which standard is most common?
4. Do you currently report on your sustainability practices – if so how do you report on sustainability? If not, why?

### **Motivation for engaging in Sustainability**

1. Why do companies decide to implement sustainability principles into their operations (and strategy)?
2. What sustainability trends are relevant for companies? (Social Development Goals, Social Reporting, etc.)

### **Implementation of Sustainability**

1. Do companies define specific sustainability goals?
2. Do companies consider sustainability goals relevant for their companies?
3. Are there any specific sustainability-related practices/ programs/ initiatives performed by companies? If yo can you name examples? (e.g., marketing initiatives; HR programs/employee volunteerism; everyday operations, sustainability reporting, strategy).
4. Do companies with or involve third parties in their sustainability programs/practices/initiatives? Who are they (NGOs, other companies, public

institutions, stakeholders)? How they you communicate their efforts to their stakeholders?

5. What are the challenges in addressing sustainability (goals) at companies and what are the challenges of implementation of sustainability-related practices/programs/initiatives? Which of those are the biggest challenges and why?
6. Does companies measure sustainability-related progress and goals?

#### **Outcomes of sustainability efforts**

1. How has the implementation of sustainability programs/practices/initiatives affected companies operations, processes, and strategy?
2. What are the biggest benefits and disadvantages of pursuing sustainability (goals)? Why?

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