The Impact of Sustainability Reports to Enhance Company Performance and its Sustainability

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Abstract

Sustainability reporting has emerged as a critical tool for modern businesses, serving not only as a window into their environmental and social responsibilities but also as a catalyst for performance improvement and long-term sustainability. This paper embarks on a rigorous journey through the academic landscape, focusing on two vital dimensions: board features and disclosure within sustainability reporting. Our objective is twofold: firstly, to illuminate the intricate concept of materiality within sustainability reporting, and secondly, to present a novel governance-centric framework that offers fresh insights, implications, and a significant contribution to the field. Drawing inspiration from stakeholder theory and the resource-based view theory, our framework transcends the conventional boundaries of sustainability reporting. By scrutinizing the intersections of governance, board features, and disclosure, this research not only sheds light on previously unexplored areas but also provides a roadmap for companies to enhance their performance while solidifying their commitment to sustainability. The implications of our findings extend beyond the theoretical realm, offering actionable guidance for companies seeking to embrace sustainability reporting as a driver of progress. In a world where sustainability is no longer a choice but an imperative, our study offers a timely and robust foundation for future research endeavors and practical applications, ultimately contributing to a more sustainable and responsible business landscape.

Keywords: Sustainability Reports, Board features, disclosure

1. Introduction

Social, governance, and environmental reports, often known as sustainability reporting, is an important change for businesses. It encompasses a comprehensive assessment of an organization's consequences on the community and the environment and goes well beyond the limitations of conventional reporting on finances (Ioannou & Serafeim, 2017). A leader in sustainability reporting requirements, the Global Reporting Initiative, also known as the (GRI), defines it as "the process of evaluating, revealing, and being responsibility to both internal and external stakeholders for company progress against the goal of long-lasting development." (Mahmud et al., 2017). The emphasis on evaluation, transparency, and responsibility in this explanation highlights the ever-changing nature of reports on sustainability. Sustainability reporting is a comprehensive instrument that helps the organization manage its company's affairs in an environmentally friendly manner by actively engaging stakeholders and informing them. It is a method of managing the business that incorporates environmental, social, and
corporate governance considerations through the business strategy, according to the International Integrated Reporting Corporation (IIRC), a group devoted to integrating sustainability into corporate reporting. By using this strategy, a business model that promotes continued success and worth creation for stakeholders is successfully created. Sustainable development reporting, in its most basic sense, goes beyond simple disclosure; it is a strategic framework that harmonizes an organization's principles and objectives with more general societal and environmental goals, encouraging sustainable practices that are appealing to stakeholders and promote long-term creation of value. Sustainability reporting has developed into an impetus for radical change in response to escalating environmental problems, cultural demands, and regulatory demands. It has established itself as a pillar in the quest of moral and ethical business conduct, guiding firms through the perilous landscape of sustainability and pointing them in the direction of performance enhancement and long-term viability (Trigo & Silva, 2022). It is crucial to understand the enormous influence that this reporting system has on the contemporary business environment as this article investigates the complex connections between sustainability reporting and corporate governance, board characteristics, and materiality disclosure. The goal of exploring these dimensions is to not only highlight the possibilities and problems, but also to propose a governance-centric model that relies on resource-based view theory and stakeholder theory. Firms improve performance with committed to sustainability to promote value creation for stakeholders in an ever-evolving environment and enhance firm performance (Tian et al., 2021). Sustainability, formerly seen as a trendy term, has developed into a crucial component of contemporary company strategy. Beyond the confines of corporate social responsibility (CSR), it has evolved into a tenet that directs businesses in the direction of moral and accountable behavior. The idea of sustainability reporting, a strong mechanism that serves as both a reflective mirror and a visionary compass for modern enterprises, lies at the heart of this shift. Sustainability reports are dynamic tools that expose a company's environmental and social responsibilities whereas advancing it toward improved performance and long-term sustainability. They are no more just static documents. The subtle connections between corporate governance, performance improvement, and sustainability reporting are explored in this article. Understanding this nexus is crucial in a world where businesses are under increasing pressure to match their operations with sustainability objectives. Our trip makes its way through the challenging academic environment while concentrating on two important factors: board characteristics and disclosure in sustainability reporting.

2. Reporting on Sustainability: Its Value

Beyond its original function as an obligatory obligation or a public relations movement, sustainability reporting has become an essential tool for contemporary enterprises. It has evolved into a potent tool for communicating a company's dedication to sustainability, responsibility, and openness. Here, we emphasize the crucial role that sustainability reporting plays in the corporate world of today.

Visibility and Accountability: Sustainability analyses provide stakeholders—from investors and consumers to staff and regulating bodies—a transparent perspective of the business's environmental and social implications. They serve as well as a window into an organization's operations. They encourage confidence among stakeholders by allowing organizations to take responsibility for their activities.
Performance Improvement: Sustainability reporting encourages performance enhancement in addition to disclosure. Companies can not only lower risks by reviewing their operations and identifying areas for improvement, but they can also find fresh chances for innovation and growth. Engagement with Stakeholders: Sustainability analyses are useful resources for interacting with Stakeholders. They offer a forum for discussion and cooperation with diverse groups that are interested in the company's pursuit of sustainability. This interaction may result in insightful discoveries and advantageous alliances.

Economic edge: Reporting on sustainability may give an edge. Businesses that can show their commitment to sustainability typically stand out in the marketplace, gaining ecologically and socially conscious clients in an era where consumers are more aware of ethical and sustainable activities.

Regulatory Compliance: Sustainability reporting is frequently mandated by law in today's dynamic regulatory environment. Legal hazards and reputational problems might emerge from non-compliance. Therefore, it is not only a matter of choice but also a duty for businesses.

Investor Confidence: When making decisions, investors are increasingly taking environmental, social, and governance (ESG) considerations into account. Strong sustainability reporting can boost investor trust, which might encourage more investment and lower the cost of financing.

Important Concerns Regarding the Reporting of Sustainability and Governance included:

Corporate governance is crucial in determining the effectiveness and sustainability of an organization (Chechan et al., 2020; Alabdullah, 2017; Alabdullah et al., 2014; Alabdullah et al., 2023; Housian et al., 2023; Ahmed et al., 2023; Alabdullah and Housian, 2023; Alabdullah and Zobun, 2023; Almashhadani & Almashhadani, 2022; Alabdullah, 2023; Almashhadani, 2020; Al-fakhri & Alabdullah, 2021; Chechan et al., 2021; Alfadhal & Alabdullah, 2016; Alfadhal & Alabdullah, 2013; Ahmadian et al., 2023). It includes all of the systems, procedures, and connections that support efficient management and supervision within businesses. Honesty, accountability, and accountable decision-making are encouraged by a well-designed governance framework, which is essential for both immediate success and long-term viability. Islamic sukuk (bonds) provide a distinctive way for businesses to raise money while abiding by Sharia-compliant rules in the field of Islamic finance (Alabdullah et al., 2023; Alabdullah, 2023; Al-fakhri & Alabdullah, 2021). By funding activities and projects that follow moral and environmentally responsible standards, these financial instruments support economic growth with an emphasis on accountability and environmental care (Alabdullah et al., 2023; Al-fakhri & Alabdullah, 2021; Chechan et al., 2021; Alfadhal & Alabdullah, 2016). Islamic sukuk are investments that are built with ethical and environmentally friendly principles in mind (Alabdullah, 2023; Al-fakhri & Alabdullah, 2021; Chechan et al., 2021; Alfadhal & Alabdullah, 2016). The issue of sukuk adheres to Sharia rules, forbidding investments in sectors like alcohol, gambling, and tobacco, and as a result actively encourages ethical and sustainable economic practices (Alabdullah, 2023; Ahmadian et al., 2023). Sukuk not only give businesses a way to raise funds but also encourage them to take on environmentally and socially responsible initiatives by fusing Islamic finance ideals with sustainability objectives. This alignment of commercial and moral goals highlights how revolutionary Islamic sukuk can be in fostering business performance and sustainability in a constantly changing global financial environment.
environment. While there are many advantages to sustainability reporting, there are also difficulties and important problems. These difficulties result from the dynamic nature of sustainability reporting, the complexity of governance, and shifting stakeholder expectations. Here, we explore a few of the important topics that demand discussion. Determining what information is relevant or material to present is one of the main issues in sustainability reporting. Companies must strike a balance between comprehensive reporting and relevance since different stakeholders may have different perspectives on what matters most. The credibility of sustainability reports depends on the dependability and correctness of the statistics that are given. Accurate data collection, verification, and reporting can be difficult, especially for non-financial measures. Standardization and Harmonization: Businesses and stakeholders face difficulties because there are no globally standardized sustainability reporting frameworks. It is challenging to assess and measure performance across firms due to disparate reporting standards. Integration with Corporate Strategy: A basic problem is how to include sustainability into the core of the company's strategy. True environmental responsibility necessitates that reporting be in line with strategic goals and that sustainability goals be more than just a box to be checked but rather an essential component of the company model. Diverse and knowledgeable boards are essential for efficient governance and sustainability supervision. The ability of a corporation to effectively address sustainability challenges might be hampered by a lack of diversity and competence on the board. Long-term versus short-term Focus: It's often difficult to strike a balance between short-term financial performance and long-term sustainability goals. Companies frequently struggle with the requirement to meet short-term financial obligations while also making investments in sustainability that could pay off in the long run. Stakeholders are bombarded with numerous reports, raising the possibility of reporting fatigue. Companies need to figure out how to communicate their sustainability data in a clear and interesting way. The combination of corporate governance, board characteristics, and disclosure within sustainability reporting presents a possible way forward in the face of these obstacles. We are aimed at shedding light on earlier unexplored territories by looking at these dimensions. We then present a governance-centric framework that not only addresses these important problems but also offers a road map for businesses looking to improve performance while reaffirming their dedication to sustainability. Stakeholder theory and the resource-based view theory, two well-known ideas, serve as the foundation for our investigation. These ideas provide insightful information on how businesses can successfully traverse the complex world of sustainability reporting and administration, ultimately leading to a more sustainable and ethical corporate environment. Knowing how to leverage the potential of sustainability reporting and governance becomes a strategic necessity as sustainability moves from being a choice to an essential. This study aims to provide an appropriate and solid foundation for ongoing research projects and real-world applications, and as a result, it will be crucial in determining the direction of corporate sustainability and governance in the future.

3. Conclusion

This paper advances our knowledge regarding how board of directors’ characteristics affect the information disclosure in reporting on sustainability. The creation of a conceptual structure grounded in stakeholder theory and resource-based view theory is one of the theoretical advances. This study emphasizes the important role boards of directors play in determining an organization's non-financial reporting to users from the standpoint of the perspective of
resources. It implies that board characteristics can boost organizational performance and internal assets within the board and improve external assets by promoting wider stakeholder interactions. The investigation highlights the significance of accountability and openness in reporting disclosure of knowledge components of sustainability from the perspective of stakeholder theory. Additionally, this research has a specific emphasis on board features and the idea of disclosure. This study provides useful information for reporting firms, practitioners, stakeholders, and regulators from a practical approach. In order to improve the disclosure of information in sustainability reports, it highlights the need for more precise and thorough requirements for disclosure compared to the existing general required criteria. The findings of this study have important ramifications for corporate governance practices elsewhere. The results emphasize how crucial board feature is in influencing sustainability reporting standards. Fostering diversity on these boards is essential as they are seen as important those making decisions for businesses. Boards are better able to identify, prioritize, and report on important sustainability concerns when they take into account a wide variety of perspectives and experiences. Thus, this research advises firms to make an effort to seek out board diversity as a strategy for increasing their sustainability reporting as well as a way to improve corporate governance. The study emphasizes the value of creating stakeholder trust and engaging stakeholders in sustainability reporting. Companies can increase openness and credibility by disclosing relevant sustainability-related information, which will ultimately strengthen their relationships with stakeholders. In today's economic environment, when organizations are expected to achieve financial outcomes as well as show their dedication to social, governance, and environmental worries, such building confidence component is crucial. According to the conclusions of this study, businesses should see sustainability reporting as a chance to interact with stakeholders and establish trust, which will strengthen their social license to operate. Although this work significantly advances our understanding of board diversity and disclosure, there are still many directions in which this field might be explored in the future. The precise mechanisms by which diverse boards influence sustainability reporting practices might be studied in greater detail. Further information might be gained by investigating the contextual variables that affect the link between board diversity and disclosure. Additionally, research that compare disparate geographies and business sectors could clarify the differences in how board diversity affects sustainability reporting. The long-term implications of improved disclosure on a company's financial and non-financial performance should also be studied, since this will provide a comprehensive picture of the value brought about by these reporting standards. Our understanding in the areas of corporate governance and sustainability accounting can continue to grow thanks to these new research directions.

References


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