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INVESTORS’ AND CONSUMERS’ UNDERSTANDINGS OF BUSINESS SUSTAINABILITY AND IMPLICATIONS

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ABSTRACT
Legitimacy and stakeholder theories have been prominently used in sustainability accounting research to offer critical analyses of corporate sustainability (in)actions and reporting disclosures. There has been a generalised approach towards stakeholders and their expectations as if these are unified and informed from a sustainability perspective. This article aims at addressing the meaning of business sustainability from the perspective of two dominant stakeholders: customers and investors. Specific examples in Australia and the United States are used to demonstrate the meaning of business sustainability to these dominant stakeholders. It is found that the prevalent approach towards business sustainability does not support the intended conceptualisation of the meaning of sustainability and sustainable development. Instead the stakeholders either ignore the concept altogether or consider it from a purely business and individual strategic and accounting perspective.

Keywords: Sustainability, Accounting, Investors, Consumers.

INTRODUCTION
Society and its sub groups (defined as stakeholders) have a major influence on the physical environment through their choices. Stakeholders’ decision making is based on information provided by business in the form of sustainability reporting and marketing devices such as advertising. Sustainability accounting literature has used Legitimacy and Stakeholder theories as prominent frameworks to explain societal expectations for sustainability reporting (for example Gray, Kouhy and Lavers 1995, Gray 2010, Hopwood 2009, Lehman 2001, Neu, Cooper and Everett 2001).

Business and management perspectives (in details of research methodologies, case studies, interviews and surveys) have been the dominant focus in sustainability accounting literature. Examples are prevalent in various prominent sustainability accounting articles and books such as a book titled ‘Accounting for Sustainability, Practical Insights, a compilation of business case studies for sustainability,’ edited by Hopwood, Unerman and Fries (2010) or a criticism of misleading, incomplete or false information provided by O’Dwyer (2005).

On the other hand, the stakeholders that allow legitimisation have received lesser attention from an analytical and critical perspective. Generalisations have been prevalent for example the use of phrases similar to ‘legitimacy in a wider world’ (Hopwood 2009, p 437), implying that the wider world has sustainability supporting and informed expectations for sustainability action and reporting from business. Or the premise of a coherent group that is informed, articulated, ethically, socially and environmentally sensitive (for example as portrayed in Norris and O’Dwyer 2003). The general assertion is that the business (corporation) and not the stakeholders are in the wrong when business does not implement socially and environmentally responsible actions. Also that the corporations make attempts at brain washing society into wrongful perceptions regarding sustainability supporting actions that may in fact be unsustainable actions (O’Dwyer 2005, Spence 2009).

The image portrayed of society is as if it is victimised by business, through misleading sustainability reporting (Gray, Kouhy and Lavers 1995, Gray 2010, Hopwood 2009, Lehman 2001, Neu, Cooper and Everett 2001). This idea is not refuted and is actually supported in this article. Rather it is proposed that dominant financial stakeholders mirror the false perception of sustainability and grant legitimacy to business based on this false perception. It is the perception itself that is the focus in this article encapsulated in this question: What does sustainability mean to two dominant financial stakeholders from the business perspective?

What is ‘Sustainability?’
In this article, the meaning of sustainability is defined as the focus on environmental sustainability. Sutton (2004) has evaluated the meaning of the word sustainability in detail. According to Sutton the word comes from the Latin word ‘sustener’ which means to ‘hold up’ or ‘to support’. Referring to the historical context of the use of the word in business hundreds of years ago Sutton has described the use of the term in the context of a form of forestry that was developed in Europe that allowed the maintenance of forestry as a continuously productive system. The term ‘sustainable forestry’ was coined (Sutton 2004).
In the 1960s and 70's the term was used more widely in reference to the whole environment and human society. According to Sutton this term was well established for it to be formally conceptualised in this reference in the 1972 UN Conference on the Human Environment. The term was then used to refer to 'sustainable development' a term coined by the International Union for Conservation of Nature (IUCN)'s 1980 World Conservation Strategy that carried the meaning of 'development that would allow ecosystem services and biodiversity to be sustained' (Sutton 2004). The term sustainable development was then extended upon in the Brundtland Report and defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". In 1992 the United Nations Conference on Environment and Development in Rio de Janaro formed the basis of Agenda 21 that caused a unified understanding of the term sustainability (also used as a substitute for sustainable development) to imply the integration/ balancing (including simultaneous progress) of environmental, social and economic issues (Sutton 2004). Although Gray (2006) is highly critical of this 'balancing' suggesting that balancing is not possible. Instead Gray suggests that a radical change in thinking and actions is required for sustainability. Sutton (2004) is also critical of the various interpretations of the Brundtland Report's definition of sustainable development and its substitution for sustainability, suggesting that various parties use the definition to support an economic development that cannot be compromised and that supports sustainability, which is not the case. Bebbington and Gray (2001, p560) support a similar conceptualisation of sustainability and sustainable development as provided by Sutton (2004) defined as "the sustenance of natural ecology and the justice and equity with which the fruits of that ecology are employed".

There are multiple instances and observations of the term being used by business for reasons that do not support the meaning of sustainability described here. See Bebbington, Larrinaga and Moneva (2008) for their analysis of sustainability considerations as a business reputational risk management strategy and Gray's (2006) criticism of shareholder value as a narrow focus that is "essentially designed to maximise environmental destruction and the erosion of any realistic notion of social justice" and the meaning of 'value' from the accounting perspective as being 'self-delusional and empty if it ignores a crucial wider context' (p793). In this article this issue of the wider context is addressed by looking at specific organisational representations of investors' perspectives of sustainability. In this sense, this article builds on Gray's (2006) view that investors in general do not support sustainability.

**Business Legitimacy**

An understanding of what meaning sustainability carries for stakeholders is important in the context of the granting of legitimacy to business if sustainability is used as a criterion. Mathews (1993, p50) has defined legitimacy as a process that encompasses:

> Organisations seeking to establish congruence between the social values associated with or implied by their activities and the norms of acceptable behaviour in the larger social system in which they are a part. In so far as these two value systems are congruent we can speak of organisational legitimacy. When an actual or potential disparity exists between the two value systems there will exist a threat to organisational legitimacy.

The problem from a sustainability perspective is the gap in the meaning and weaknesses associated with 'social values' for sustainability. O'Connor (1994, p 5) has described consumer oriented industrialisation as 'a destructive process whose result is the dereliction of human societies and ecosystems alike'.

**Importance of Informed Societal Choices for Sustainability**

The onus on society and stakeholders to consider the true essence of sustainability has been recognised by Maclagan (2008), Ang and Wilkinson (2008) and Mohr (2000). The authors have emphasized the importance of an active understanding of various sustainability issues by multiple stakeholders and the society in general.

Maclagan (2008) has called upon stakeholders to play a prominent role in understanding sustainability and implementing their sustainability supporting responsibilities through informed choices. Maclagan has also indicated that there are only a limited number of parties that represent sustainability supporting interests on behalf of the larger society. These parties include NGOs/civil society organisations, unions (on behalf of employees); ethical investment funds mangers and the 'ethical consumers'.

If society does not have a uniform view of sustainability as the primary imperative then gaps in understandings, expectations, priorities and acceptances (what is right or wrong for promoting sustainability) are inevitable. An example of such a gap between stakeholders has been presented by Barkemeyer (2007). This gap is demonstrated in Figure 1.
Referring to Figure 1, Barkemeyer (2007) holds the view that in most instances the information and decision making needs of the dominant (finance providers versus natural resources providers) stakeholders are fulfilled and that this process results in corporate legitimacy. Ashforth and Gibbs (1990) have adopted the term 'symbolic Management' derived from Richardson (1987) to provide a similar understanding of attainment of corporate legitimacy based on dominant financial stakeholders' expectations' fulfillment.

Sustainability considerations encompass a primary focus on the finite nature of natural resources (Aitkenhead, 2009, O'Connor, 1994, Brundtland (report), 1987) and the relevant boundaries. Barkemeyer has proposed that stakeholders that have formal control over these natural resources (including communities, societies and governments) do not have the same importance in management's books as the stakeholders who provide direct funding in the form of investing or lending to the manager's institution. Attention is now focused on two financially dominant stakeholders' perceptions and expectations of sustainability from business.

**Research Question, Method and Findings**

The research questions addressed in this article are:

How do two financially dominant stakeholders define sustainability? Are their meanings of sustainability human societies and ecosystems supporting or do they ignore such considerations or are they biased/ mis informed considerations? The answers to these questions are derived from literature. Two prominent sources to understand investors' meanings of sustainability in Australia and the United States and general literature on consumers with one specific example in accounting literature are used to critically identify a gap that currently exists between the granting of business legitimacy by financially dominant stakeholders based on their understanding of sustainability and sustainability defined as maintenance of natural ecology and social justice. Examples of the complexities involved and the over riding precedence of a monetary approach by consumers and investors in society are presented.

**Dominant Stakeholder (Financial) 1: The Investor**

Gray (2006, p 798) has criticised the narrow focus of shareholder value from the financial perspective as simply value creation that demonstrates 'how much more the rich people will receive as a result of economic activity while ignoring how that surplus (sic) has been appropriated or calculated'. Gray is strictly of the view that any efforts towards business sustainability considerations without a substantial departure from the underlying conventional capitalist philosophies, frameworks and approaches are merely a Triple Bottom Line view which according to Gray predominantly supports the economic bottom line above the other bottom lines. As Maclagan (2008) has suggested unless and until the investors take a wider view point beyond their self centred economic returns perspectives, sustainability by business may not be a practical expectation.
May's Report 2003

A consideration of the current investor perception of sustainability by business is now presented with two specific examples. The first example is the investor view depicted in the Mays Report released by the Australian Government's Department of the Environment and Heritage in 2003. It is a 90 pages long document that was sponsored by the Australian government and at least eight large financial institutions in Australia. It is the only extensive publication released by the Australian government that has considered the investor's perspective of sustainability by business at this point in time. The aim of the report was to analyse 'Corporate Sustainability' (a term used in the report) from the investors' point of view. The main purpose expressed in the report as 'corporate sustainability' contradicts the clear cut definitions provided by Sutton (2004) who has warned against the misuse of the term sustainability to suggest anything else except ecological sustainability and social justice. A more accurate term that could have been used instead that would have been a more accurate representation of the approach adopted in the report is ‘Sustaining the corporation’. The ultimate goal identified in the report is clearly a stronger bottom line and better profit returns for investors by using sustainability as a tool.

Detailed interviews with influential business investors were carried out in order to generate investors' views on the meaning of sustainability in the business context in Australia for the May's Report. Terms used in the report to support sustainability are such as 'actions that make 'good business sense', with 'superior investment credentials ... at a lower rate of long term risk' (p 9).

It was also clarified in the report that the aim of the report was not to ‘save the world’ or to ‘pursue a morally right cause’. The report also emphasized that the main goal of focusing on corporate sustainability was not triple bottom line reporting either. Rather it was to provide a framework for incorporating sustainability within the business structure in order to enhance shareholder value in the long run.

Mays report has also identified factors that would enhance shareholder (investor) value from a sustainability point of view. These are provided in Figure 2.

![Figure 2: Value adding drivers for corporate sustainability (Source: Mays Report 2003, p 12).](source)

Figure 2 re-emphasizes the point mentioned above that from an investor's point of view any suggestions of direct recognition of sustainability conceptualisation and implementation is as an emphasis on public image, cost reduction, risk control and wealth maximisation (traditional shareholder prioritisations). Further findings in the report also suggest a similar view in regards to social justice. For example it was found through the research conducted for the purpose of the report that 80% of the ASX 200 were not providing disclosure of events in relation to workplace health and safety. In reference to Energy use 90 percent of the ASX 200 companies did not provide any information in their disclosures. Two main institutional investors interviewed for the purpose of the report commented that: 'We are surprised that the main steam investment community has not done more to ensure dialogue on these important matters' (May's report p 18).
It is discerning to note that the meaning of sustainability is being shaped into self centred views with no room for any compromises or sacrifices. If the self centred expectations such as the ones in Figure 2 are met then legitimacy is granted by these investors.

If this government document is used as guidance to understand sustainability from the investors' point of view then the investor's meaning of sustainability is clearly the long term viability of the business, its risks' mitigation strategies and implementation and positive investor returns in the long run. The May's report accurately supports Gray's (2006) views that shareholder value and sustainability cannot coincide from a purist perspective of sustainability as presented earlier on in this article. Corporations have adopted a habit of considering and even manipulating the concept of sustainability to ultimately serve their own conventional purpose of financial wealth maximisation. The same view is held by majority of their investors.

**Social Investment Forum Foundation (SIRF)**

A North American example of 'responsible investing' that also incorporates sustainability in the criteria is now considered in order to determine any differential contextualisation of sustainability in investor thinking and actions in the United States.

The Social Investment Forum foundation (SIRF) is a U.S. association of more than 400 institutions, individuals, organisations and others involved in sustainability supporting and socially responsible investing (SIRF 2011). As US SIF is "the only national membership association dedicated to advancing the concept, practice and growth of socially responsible investing (SRI)" (SIRF 2011) their views of sustainability would represent a dominant investor's meaning of sustainability as the May's report did in Australia. SIRF has pre determined criteria that it and its members use as a guide for investing. Only one of these three criteria needs to be fulfilled by the investor when evaluating a business for investment, for it to be classified as socially responsible investing. These criteria are:

- Screening: Including environmental, social and governance factors into Investment analysis and choices,
- Shareholder Advocacy: active dialogues with companies by shareholders and filing of shareholder resolutions (for voting at the shareholders’ meeting) on corporate governance, climate change, work place rights' issues and pollution, to mention a few,
- Deposits into financial institutions that have a community investing focus. ( SIRF 2011)

As far as shareholder resolutions are concerned, according to a SIRF report, 300 shareholder resolutions were filed in 2007-2008 in the United States at the companies’ annual meetings. The main focus of these resolutions was greater disclosure, specifically relating to political contributions by the companies. Other topics addressed included equal employment opportunities, global labour standards, Climate Change, Environmental management and reporting.

As far as sustainability efforts with a focus on the natural environment were concerned, 50 proposals on average per annum were filed in 2007 and 2008. These proposals asked for energy efficiency measures, reporting on climate change strategies, reducing emissions' strategies and development of renewable energy sources strategies. The success of these resolutions in the form of corporate actions was found to be limited.

A potential problem with SIRF’s criteria is the choice available between the criteria. Although social and environmental matters may bear inter connectivity, contradictions are also prevalent. For example a palm oil plantation in a developing country may be a sustainable source of income for a farmer but if it is not farmed using environmentally friendly agricultural techniques which can cause lasting damage to the environment and is against sustaining the natural ecology.

As far as the percentage of socially responsible investments are concerned, in 2010, 12.2 percent of the total assets under professional management in the United States were classified as socially responsible investment according to one or more of the criteria mentioned above (Social Investment Forum Foundation 2010). Referring back to investment criteria, another report by SIRF has identified the differences between specific criteria applied by investors from two different regions: North America and Europe. According to the findings in the report, European investors focus on corporate governance criteria and North American investors use negative screening for investment selection. Figure 3 is a representation of the selection criteria used by the investors.
Out of the two types of investors' categories researched by SIRF, assets managers and individuals (regardless of region) SIRF found that asset managers (38 out of the 67 respondents) placed the greatest emphasis on corporate governance and least emphasis on environmental performance. Majority of the individual respondents (mostly from North America) used negative social screening as their primary determinant followed by corporate governance, environmental performance, and international norms with least emphasis on green energy and technology.

According to Brigham, Kiosse and Otley in Hopwood, Unerman and Fries (2010) negative screening involves the exclusion of companies for investing that do not satisfy the ethical standards set by the screening body. Considering the emphasis on negative social screening, for social justice related to issues such as labour practices and workers' rights rather than environmental concerns, social justice seems to be more prevalent in SIRF’s investor choices.

As far as the relationship between corporate governance and sustainability is concerned, for sustainability to be implemented in business thinking and practice the corporate governance mechanism has been considered to be crucial. In spite of this, the investors' expectations of corporate governance considerations for sustainability are limited to a narrowly defined focus on greater disclosure on executive pays and diversification of boards (Social Investment Forum 2011).

**Investors for Sustainability: An Overall Picture**

The complex nature of the investor/shareholder, types of investors and the criteria used for sustainability supporting choices have been indicated in this section, with examples. It has also been found that a choice between evaluation criteria for socially responsible investing may result in an imbalanced approach where social justice issues may take precedence over eco justice sustainability issues. There seems to be minimal inclination of compromise or sacrifice of gains and profits on behalf of investors and as a result by managers to promote ecological sustainability.

The next financially dominant stakeholder now considered is the consumer/customer.

**Dominant Stakeholder (Financial) 2: The Consumer**

As far as consumer attitude towards sustainable products is concerned, literature seems to demonstrate the same variability and an inclination towards a dominant monetary for example costs considerations in consumption patterns. For example, as far as renewable energy sources are concerned Wald and Zeller (2010) have pointed out that politicians, environmentalists and consumers want renewable energy and reduced dependence on fossil fuels but simultaneously it is also hard not to ignore a growing number of renewable energy projects that are cancelled or delayed because governments do not want to add even small amounts to consumers' utility bills for this purpose.
There are numerous other examples of consumer demand for products that hinder sustainability and are a negative impact on the environment (through increased greenhouse gas emissions). For example, it is found that the latest household electronic products (as demanded by consumers) are a greater impact on the environment compared to older products (Setzer 2007). This is due to the design of these products (as demanded by consumers) and a shorter life cycle that renders the product as waste as compared to the older products (Setzer 2007).

Even if consumers try to implement sustainability efforts they may face ill informed resistances and green washing by business (Gray, Kouhy and Lavers 1995, Gray 2010, Hopwood 2009, Lehman 2001, Neu, Cooper and Everett 2001). An example is provided by Spence and Rinaidi in Hopwood, Unheman and Fries (2010) through a case study involving a major retail grocer chain in the United Kingdom. In the particular case study it was identified that consumers prefer to buy organic meat products based on an animal welfare concern over a carbon footprint concern. It was also found that the particular consumers interviewed supported organic farming over commercial farming based on the belief that organic farming is more animal friendly and does not violate animal rights compared to commercial farming. Interestingly the supermarket tried to convince the consumers into believing that intensive commercial sheep farming is less environmentally impacting and used this explanation to support the retail chain's preference to stock more of the product that comes from intensive farming compared to organic sources. It can be seen in this example that these particular consumers wanted organic meat products based on the belief that they were less violating of animal rights (social justice) and the business was trying to attain customers' support for commercial meat products by using sustainability as a selling tool for commercial meat production. As far as sustainability from the consumer's viewpoint is concerned, it is suggestive of a greater support for social justice above eco system sustenance.

Further research in this area has found that it is actually organic farming (which also coincidentally supports animal welfare) over intensive farming that is less environmentally impacting (Sherman 2008, EPA 2005). The case presented supports a 'dangerous' business trend referred to as 'green washing' that is used to attain corporate legitimacy, in this example from consumers. Laufer (2003, p255) has described green washing to include business practices and communications that would "create confusion, undermine credibility, criticize viable alternatives, and deceptively posture firm objectives, commitments, and accomplishments". The example provided here is one of the numerous instances of blatant lying by a corporation regarding its product as supporting sustainability.

There are indications of sustainability (eco justice) informed consumers who demand environmentally friendly products. The market for organic food sales in the United States is one such example being 3% of the total sales of retail foods and beverages in 2004 (Holcomb 2004) and 3.7 percent in 2009 (Organic Trade Association 2010). In Europe, the organic food sales compared to total sales is approximately 10 percent (Commission Européenne 2005). As suggested in these examples these consumers are a minority group. These statistics for product demand support Wald and Zeller's point that in theory dominant stakeholders such as consumers want sustainability supporting products but in practice fail to implement their own expectations due to factors such as lack of information, lack of trust, increased costs implications and lack of justification for more costly environmentally friendly products. Henseleit (2008) found no strong relationship between environmental issues and consumption behavior, partly due to the lack of trust from consumers relating to transparency on product labels as well as misleading advertising. Other factors impacting consumer lack of demand for sustainability supporting products include cost minimisation and inequalities to absorb monetary loss as well as perceived non justification for higher costs of sustainability supporting production and manufacturing (Petigrew and Roberts 2007).

**MEANING OF SUSTAINABILITY AND APPLICATION: IMPLICATIONS**

The main purpose in this article was to identify the meaning and application of sustainability by two specific stakeholders that allow businesses the license to operate and who grant business legitimacy. From the investors' point of view two examples of investors' understanding of sustainability for decision making were provided. The first example is the May's report (2003) which reflected a narrow, wealth creating business focused sustainability. There are clear assertions in the report that investors' choices that support sustainability are not driven by an ethical or moral 'save the planet' initiatives. As Peace (2008) has suggested such narrow application of sustainability as an instrument for promoting self gains does not effectively cause any positive change for the natural environment. The second example was that of ethical investing that demonstrated such flexibility and choice in the decision making criteria that creates an imbalance and a diversion from sustainability to social justice.

As far as consumers are concerned, the same degree of differential priorities mostly driven by self centred objectives was identified. It was also found that even if consumers want to implement sustainability supporting choices they may be hindered by business through wrongful and misleading information (green washing).
The meaning of sustainability understanding and implementation from a financially dominant stakeholder's perspective is more inclined towards the traditional wealth creation, cost minimisation approach. There also is also a departure from the true essence and meaning of sustainability discussed in the earlier section of this article. Business legitimacy is still granted based on these conventional criteria and expectations resulting in no substantial and meaningful business change for sustainability emphasized as a requirement for actual sustainability to occur by Gray (2006).

As United Nations (2007) has pointed out although the term sustainable development has been included in key documents generated by governments and private institutions, "the commitment to sustainable development has not gone much beyond..." Desai (a senior advisor to Brundtland Commission) in United Nations (2007). Desai has also stressed that all sectors including the investment sector need to create an 'ownership' of sustainable development for sustainability and need to consider it as a bridge that should connect economics, ethics and ecology.

Drexhage and Murphy (2010) have identified a substantial gap between what sustainable development requires compared to the emphasis observed in actions since the Brundtland report. They have described economic growth as a key driver of consumption patterns strongly influenced by economic wealth accumulation. Wealthy nations and individuals have not changed their consumption patterns in line with the limitations of the natural environment and finiteness of natural resources.

CONCLUSION

Stakeholder and legitimacy theory as applied in social accounting literature is generally based on a presumption of a sustainability informed and knowledgeable society that has sustainability supporting expectations (including actions and reporting) from business. An understanding of a unified and simplified approach towards sustainability from all stakeholders is prevalent in literature. Although, Deegan (2002) has rightly pointed out that the legitimacy demanded (in support of true sustainability) is not a general, uniform view. Rather that this is an opposing view, a minority view, a view that is 'against the trend' (p284). This view was supported in this article for example by the percentage of organic food production undertaken in the U.S.A. and Europe.

This paper has added to sustainability accounting literature by identifying the complex and varied nature of two types of stakeholders, in terms of understanding their meanings of sustainability. Barriers and limitations based on traditional success measures and choices that still exist against sustainability have been identified. Deegan's (2002) point is re-emphasized that the wider world is not as sustainability aware, educated and sensitive as it is assumed to be.

From the investors' perspective it was found that if investors support sustainability through green technologies for example adopted by business, the support is only up to the extent of cost reduction and wealth creation. There seems to be no room for compromise that may impact profits negatively. Investors in Australia, based on the May's report's findings, do not emphasize better social and environmental reporting disclosure by ASX listed companies. So long as their main objectives of wealth creation in the short and long term are fulfilled, they allow the license to operate and grant legitimacy to the corporations. In the U.S.A it was found that if socially responsible investing is considered, such as by following the guidelines provided by SIRF, environmental sustainability may be ignored altogether due to a diversified set of decision making criteria that may or may not emphasize ecological sustainability. As far as consumers are concerned, there is a wide array of understandings of the meaning of sustainability. There are also indications of confusions and ill informed consumption behaviours. Cost considerations only and personal gains such as careless use of energy for personal satisfaction are prevalent amongst consumers. It is found that pre-dominantly sustainability has ended up as an instrument of promoting self centred interests without any lasting changes in behaviour or preferences for ecological sustainability.

REFERENCE LIST


