Corporate sustainability from a management accounting perspective and Egyptian reality

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Corporate sustainability from a management accounting perspective and Egyptian reality

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Abstract

The article explores the critical relationship between corporate sustainability and management accounting practices, emphasizing that businesses must operate within environmental and social frameworks to achieve long-term financial success. As global economic expansion pressures ecosystems, stakeholders increasingly demand transparency regarding the environmental and social impacts of corporate operations. This demand compels firms to enhance their sustainability reporting and integrate environmental and social performance metrics into traditional financial reporting and management control systems.

The article elaborates on the challenges firms face in balancing financial objectives with sustainability goals, pointing out the lack of empirical research into what motivates corporations to adopt various sustainability strategies and how managers can effectively implement management control systems to support these initiatives. By addressing these gaps in the literature, the article aims to spark further research on the adoption of sustainability strategies, their implications for firm performance, and the development of robust sustainability accounting systems.

The Egyptian Reality of Corporate Sustainability: The article examines initiatives undertaken by the Egyptian Exchange (EGX), including the issuance of a comprehensive guide for listed companies emphasizing the importance of disclosing sustainability performance. This guide outlines responsibilities and governance structures, provides a framework for preparing sustainability disclosure reports, highlights the board of directors' role, promotes stakeholder engagement, defines material disclosure topics and significant events, and introduces performance measurement indicators.

Ultimately, the article underscores the necessity for the accounting profession to evolve beyond its traditional boundaries to include assessments of environmental and social impacts. This evolution in accounting practices is crucial not only for complying with external pressures but also to create strategic advantages in an increasingly resource-constrained and environmentally conscious market. The findings suggest that businesses that actively monitor and manage sustainability issues are better positioned to maintain their legitimacy and enhance shareholder value in a rapidly changing economic landscape.

Keywords: Corporate sustainability – Management Accounting – The Egyptian Reality.

1- INTRODUCTION

To ensure long-term financial success, businesses need to recognize that they are operating within a larger biophysical and social environment and respect the limits and processes governing the sustainability of the larger ecosystem as the global economy expands rapidly toward the carrying capacity of the planet. Consequently, firms, especially the large multinational corporations, are challenged to behave in an environmentally sustainable and socially responsive manner while maintaining and improving shareholder value. Stakeholders are soliciting information on the environmental and social impacts of business operations as well as on measures to benchmark corporate social and environmental performance in different industrial contexts, while investors demand disclosure of material environmental risks and related compliance costs and liabilities. Firm managers continually seek information to improve the triple bottom line performance and to make informed trade-offs among often-conflicting financial, environmental, and social objectives. As a result, the accounting profession is being called upon to expand its traditional role to incorporate environmental and social performance into the financial reporting and management control systems.

Research in corporate sustainability and management accounting practice covers a broad territory. Early research in environmental accounting focused on the disclosure and valuation relevance of corporate environmental performance. A large body of accounting research shows that corporate disclosure of environmental information is likely to be strategic, consistent with either voluntary disclosure theory or the legitimacy theory (Aguilera et al.,2021; Aragón-Correa et al.,2024; Xia et al.,2023; Cho and Patten, 2007; Cho et al., 2012; Karim et al.,2021; Zaman el al., 2021; Zheng et al.,2022; Alsaifi et al., Elnahass, 2020 ; Clarkson et al., Li,2008; Clarkson et al., 2013)

. In addition, many studies provide empirical evidence that corporate environmental performance information in various industrial settings is valuation relevant (Wong and Zhang 2022 ; Hang et al., 2019 ; Tsang et al., 2023; Johnson et al., 2008; Chouaibi et al., 2022 ; Clarkson et al., 2015; Tsang et al.,2023; Matsumura et al., 2011). Similarly, there is ample empirical evidence that variation in corporate environmental performance affects the behavior of a wide range of capital market participants, including creditors, shareholders, analysts, and managers. However, there is relatively little empirical research on what motivates corporations to pursue different sustainability strategies, and how managers implement effective management control systems to achieve sustainability.

2- SUSTAINABILITY AND IT RELATES TO BUSINESS

Sustainability and sustainable development are clichéd terms widely employed in the business press but seldom defined unequivocally. The most accepted definition of sustainable development is attributed to the Brundtland Commission. (Sheehy and Farneti, 2021) draw on the Brundtland Commission and define corporate sustainability as ‘‘meeting the needs of a corporation's current direct and indirect stakeholders without compromising its ability to meet the needs of future stakeholders as well.'' Along similar lines, (Agudelo et al., 2020) define corporate sustainability management as a business approach that is designed to shape the environmental, social, and economic effects of a company in such a way that, first, results in the sustainable development of the company and, second, provides an important contribution toward the sustainable development of the economy and society (Rhou and Singal, 2020).

The debate relates to whether firms have social responsibility beyond shareholder wealth maximization has a long history, starting with (Bowen, 1953) who referred to the obligations of businessmen to pursue policies, decisions, and lines of action that are desirable in terms of the objectives and values of society.

(Friedman, (1970), on the other hand, argued that corporations as legal persons do not have feelings and ethics. Corporations only have ‘‘artificial responsibilities’’ that can be defined explicitly by law or regulations, and the only social responsibility of business is to maximize shareholder wealth. Others have argued that such dichotomy is moot since corporate social responsibility (CSR) is consistent with long-term shareholder value maximization; e.g., (Davis (1960) who asserted that ‘‘socially responsible business decisions can be justified by long, complicated processes of reasoning as having a good chance of bringing long-run gain to the firm, thus paying back for its socially responsible outlook.’’ Since then a number of mechanisms through which sustainability efforts can add to firm value have been proposed, including better operational efficiency and cost reduction, reduced regulatory enforcement, increasing rival’s costs, improved environmental risk and compliance cost management via emission reductions, superior social risk management through stakeholder engagement and legitimacy, preferential access to scarce resources, product differentiation and access to environmentally conscious markets, lower cost of capital and labor due to improved reputation, shared value creation and lower input supply disruptions due to improved sustainability and resilience of sources, and sustained innovation and growth by addressing big societal issues (Tsang et al., 2023; Coelho et al.,2023; He et al., 2023;Alareeni and Hamdan,2020; Abdi et al., 2022;Raimo et al.,2021;Amel and Serafeim.,2018). At the same time, contrary arguments persist that CSR activities will adversely affect firm financial performance because (1) sustainability considerations represent additional constraints on production technology forcing firms toward suboptimal choices, (2) CSR goals divert managerial attention and drain resources from productivity-enhancing activities and investments, (3) CSR activities represent unproductive ceremonial institutional practices, (4) managers engage in CSR activities to further their personal agenda and reputation at the cost of investors, and (5) CSR activities are corporate charity at the cost of shareholders (Christensen et al., 2021; Fatemi et al., 2018; Rau and Yu,2024). As a result, controversy still remains in the literature as to whether improved CSR performance creates shareholder value; moreover, if CSR does enhance value creation, then why is it not practiced uniformly by all firms (Clarkson et al., 2011; Orlitzky 2013; Lys et al. 2015)?

The panel discussion article by Hales et al., (2016) in this issue jumps into the debate by exploring the implications of alternative viewpoints on corporate CSR investment decisions and related accounting practice. First, if the goal of all investments is to maximize owners' wealth, then rational managers would presumably analyze CSR investments in the same way that they analyze other investments. Any benefits to society from CSR investments are simply byproducts of actions designed to accomplish this goal. Consequently, traditional measures such as earnings and stock returns would also enable the assessment of CSR performance. Environmental and social factors that impact shareholder wealth maximization must be managed in the same way as traditional economic factors that affect businesses' financial performance. Under this view, managers are obligated to disclose only those aspects of environmental and social performance that are material to investors (Gao et al.,2023). A second view is that company managers should, and do, make CSR investments that benefit society even at a sacrifice of company profits. The investors/owners may encourage such spending if the owners value the societal benefits of the CSR investment more than the potential negative effect on their wealth. In other words, owners derive utility from economic as well as the environmental/social value created by the business, and managers as agents of the owners attempt to maximize the utility of owners (Krueger et al., 2024). Because environmental and social performance of the firm affects owner's utility, managers are obligated to comprehensively measure and disclose environmental and social performance along with financial information to the investors. Such disclosures allow investors to invest in companies that maximize their utility. Firms can use the triple bottom line performance mix as a differentiation strategy to attract investors who value social and environmental performance. Evidence of the importance of this view is provided by the massive growth in sustainable, responsible, and impact investing (SRI). The total U.S.-domiciled assets under management using SRI strategies expanded from less than $0.3 trillion in 1995 to $6.57 trillion at the start of 2014, representing more than $1 out of every $6 under professional management (US SIF Foundation 2015). A third view draws on the stakeholder theory. That is, businesses exist in a social setting and inevitably draw on critical resources, such as environmental capital (e.g., soil fertility, forests, fisheries, and water resources) and social capital (e.g., legal systems, police, national defense, social norms, and education system) for their operations, and as a result need the legitimacy and ''the license to operate'' from a broader set of stakeholders (Evan and Freeman, 1993). In return, the stakeholders demand information on the impact, either positive or negative, of business operations on the publicly owned natural and social capitals and their long-term sustainability and expect managers to consider in their decision making the ''external'' impacts on the sustainability of these public goods. It is also then in the company's strategic interest to respect the interests of its stakeholders, giving rise to corporate social responsibility (Freeman,2023).

3- SUSTAINABILITY ACCOUNTING

Regardless of which of the above viewpoints dominate in management practice, all of them impose on businesses a responsibility to measure, disclose, and manage at least some aspects of environmental and social performance along with traditional financial performance. The choice of sustainability performance targets and trade-offs among dimensions of such performance and disclosures may, however, vary among firms depending on their motives, mission, core values, chosen business strategies, and external stakeholder/institutional pressures and regulations. To practice sustainability, companies need to implement an accounting system to generate and organize information to enable external sustainability reporting, to facilitate management control, and to influence internal decision making (Chen et al., 2018).

External reporting of sustainability performance can either be mandatory, governed by laws and regulations, or voluntary, driven by soft institutional pressures or differentiation strategies. For example, Staff Accounting Bulletin 92 of the SEC provides detailed accounting and disclosure standards for reporting material effects of compliance with environmental regulations and recognition of environmental liabilities in the regulatory filings. Similarly, periodic reporting of hazardous pollutant emissions, hazardous waste generation and disposal, greenhouse gas emissions, worker safety violations and accidents, environmental impact analyses, etc. are mandated under various environmental and occupational health and safety regulations (Baumüller and Sopp,2021). While such regulations have a long history, a few countries (e.g., Finland) have passed laws mandating sustainability reporting. All large public companies in Europe are required to report certain Environmental, Social and Governance (ESG) information beginning in 2017 according to a European Commission Directive (2014/95) enacted on October 22, 2014.

Several organizations are developing sustainability reporting standards for firms with the goal of making external sustainability reports accurate, consistent, reliable, and comparable across time and across firms. The article by Hales et al., (2016) compared and contrasts the key features of the reporting models of four major players in this arena; namely, Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), the Sustainability Accounting Standards Board (SASB), and the Carbon Disclosure Project (CDP). The proposed reporting standards and models differ in terms of target stakeholder groups, definition of materiality, data collection, and aggregation agency, scope of performance metrics, and report generation models. For example, the intended target user group under SASB standards is primarily equity and debt investors and, correspondingly, materiality is defined most restrictively with minimum disclosure of nonfinancial information. In comparison, the intended users under GRI cover a broader set of stakeholders, and materiality is defined broadly to reflect the priorities of different stakeholder groups. Materiality in IIRC focuses on the organization's ability to create value in the short, medium, and long run, drawing on the six capitals, namely financial, manufactured, intellectual, social, human, and the natural capital. Under GRI, the reporting entity separately produces financial reports using FASB/IASB standards and a CSR report using GRI standards; but in the SASB model, the reporting entity produces one enhanced 10-K report using both FASB/IASB and SASB standards; while under the IIRC model, both financial and CSR reports are combined into a single integrated report. Since these standards are currently evolving, competing, and converging in some aspects, the analysis by (Hales et al., 2016) provides useful insights and synthesis of developments in external reporting standards for corporate sustainability performance.

While the standards being developed by GRI, IIRC, SASB, etc., attempt to define and standardize the sustainability performance metrics (often industry specific) for external reporting, businesses must develop internal management and control processes to achieve these performance metric targets. One source of guidance in setting up internal environmental management systems (EMS) is the ISO 14000 series of EMS guidance documents and standards produced by the International Standards Organization (ISO). The ISO 14000 standards embody a road map (Plan, Do, Check and Act cycle) aimed at continual improvement, with detailed guidance on implementation. Organizations can set up EMS and become certified as ISO 14000 compliant. Subsequently, the ISO has expanded the scope to sustainability management systems (SMS) in its ISO 26000 series of standards, which are guidance documents only and not yet certifiable. It is important to note that ISO series are only process standards that define requirements for an organization's management system and processes, but do not define/proscribe any specific performance criteria except for the commitments to legal compliance and continual improvement (Wong and Zhang, 2022).

To practice sustainability management, firms choose the sustainability performance targets that are material to and consistent with the mission and core business strategy, and that are relevant to the external stakeholders. An effective sustainability management control system needs to be designed appropriately to be synergistic with traditional management systems. Moreover, managing ever-growing environmental compliance and sustainability-related costs is critical. For example, case studies show that environmental regulatory costs account for as much as 15–20 percent of total product costs (Berlinski and Morales,2024). Environmental cost information can influence key business decisions such as product costing and pricing, product mix, regulatory negotiations, risk management, product design and differentiation, labeling, and tax planning (Weitzner and Deutsch,2023).

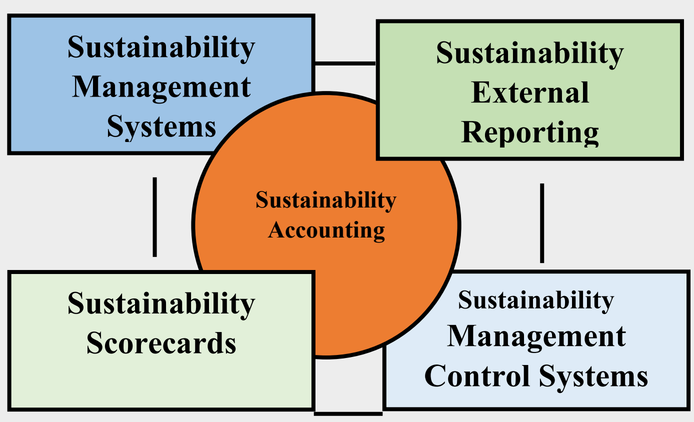

FIGURE (1)
SUSTAINABILITY ACCOUNTING

As mentioned above, practicing sustainability also creates opportunities for new product markets, business model innovations, and value creation through supply chain management. Thus, sustainability management essentially becomes an integral part of the overall business strategy. Translating the chosen sustainability strategy into specific information needs, key performance indicators, and decision making criteria may necessitate tools such as the sustainability balanced scorecard and strategy maps (Deegan,2017; Bebbington et al., 2017; Acuti et al., 2024; Roszkowska-Menkes et al.,2024), eco-control (Ghio et al., 2024; McPhail et al., 2024; Twyford et al., 2024), or sustainability management control (Valentinov and Iliopoulos,2024).

In summary, sustainability accounting as depicted in Figure 1, is an interlocking, mutually reinforcing sustainability-related information system encompassing external reporting, internal decision-making support, and management control systems that are consistent with the overall business strategy.

4- VALUE RELEVANCE OF CORPORATE SUSTAINABILITY PERFORMANCE

Given the general intuition that sustainability performance can influence financial performance, disclosure that allows market participants to assess the firm's sustainability performance can have real economic consequences for the firm and its stock price. Prior studies have analyzed stock market reactions to sustainability-related events such as environmental awards, public release of toxic release inventory data, and inclusion/exclusion from sustainability indices (Gilbert et al.,2024; Cheung and Roca,2013; Drujon d'Astros et al.,2024; Mio et al.,2024; Eager et al.,2024; Cheung and Roca 2013;Freire et al.,2023;Gómez-Villegas etal.,2023;Ghio et al.,2024;George et al.,2023; Roszkowska-Menkes et al.,2024). Several studies suggest that disclosures of environmental liability information is informative to investors (Griffin and Sun 2013; Eliwa et al., 2021; Zhang, 2022; Yu, 2020; Stroumpoulis and Kopanaki,2022 ; Rehg,2023 ;Clarkson et al. 2004; Matsumura et al. 2014; Schneider 2011), and that corporations disclose environmental performance information strategically, consistent with either voluntary disclosure theory or the legitimacy theory (Freeman and Phillips,2023 ; Herron and Powell,2024; Baldarelli and Rusconi,2024 ; Patten 1992, 2002; Cho and Patten 2007; Cho et al., 2012).

Nonetheless, controversy remains in the literature as to whether corporate CSR performance increases future financial performance (Clarkson et al. 2011; Lys et al. 2015). Many prior studies have empirically examined the relationship between corporate sustainability performance (CSP) and corporate financial performance (CFP). In their review of 82 studies, (Arian and Sands,2024) find that 75 studies report a positive effect of CSP on CFP, but only 50 percent of these were statistically significant. Similarly, (Li et al.,2024) in their analyses of 251 prior CSP/CFP studies observe that 59 percent of studies reported a non-significant relationship, 28 percent a positive relationship, and 2 percent a negative relationship between CSP and CFP. A comprehensive review and synthesis of this literature is provided by (Yao et al.,2023). Some also argue that corporate CSR activities simply add noise and volatility to capital markets (Lv et al.,2024) posit and find empirical support that the direction of causality between CSP and CFP is reversed in that CSR expenditures are signals of private information about better future performance. This literature remains inconclusive. (Eng et al.,2022) in this issue take a slightly different approach and examine whether short sellers, as informed investors, consider CSR performance, specifically ESG disclosures, when making investment decisions. They find a negative association between ESG scores and short selling, indicating that short sellers avoid firms with high ESG scores and tend to target firms with low ESG scores. They also find that low composite ESG scores are associated with low financial performance in terms of share price, return on equity, ROI, and operating risk. Their analysis contributes to extant literature by focusing on the reactions to sustainability performance of a specific set of sophisticated investors, namely short sellers.

5- THE IMPACT OF QUALITY OF CONVENTIONAL FINANCIAL DISCLOSURES ON SUSTAINABILITY PERFORMANCE INFORMATION

A major concern about corporate CSR disclosure is its quality and reliability relative to conventional financial reporting, primarily because of its voluntariness and lack of generally accepted disclosure and certification standards. While the CSR reporting standards being developed by organizations like GRI, IIRC, and SASB aim to alleviate these concerns, studies show that corporate disclosures of social, ethical, and environmental information do not seem to meet investors' needs (Bose et al.,2024;Diouf and Boiral,2017) Other studies show that, to enhance the credibility in corporate sustainability reports, firms may voluntarily employ independent third parties to certify their CSR or sustainability reports (Baldini et al.,2018;Boiral et al.,2019). The article by (Hammami and Hendijani,2022) in this issue) examines whether the quality of conventional financial disclosure, proxies by audit fees, influences the perceived quality and credibility of CSR disclosures. They build on the finding by (Tsang et al.,2023) that independent verification of financial outcomes has a spillover effect that increases the credibility of voluntary disclosure of private information, and they empirically test whether such a spillover effect is also applicable to voluntary CSR disclosures. Their analyses use a sample of 12,429 firm-year observations consisting of 731 voluntarily issued standalone CSR reports. Results indicate that firms committing higher audit fees are more likely to issue a standalone CSR report, and this positive association is stronger when CSR reports are longer and when firms have more CSR- related concerns. Further analysis shows that CSR reports issued by firms with higher audit fees accelerate the incorporation of future earnings information into the current stock price. That is, CSR reports issued by firms committing to higher financial reporting quality provide more effective and credible signals to investors about firms' future performance.

6- FACTORS DRIVE THE ADOPTION OF SUSTAINABILITY ACCOUNTING PRACTICES

Studies of sustainability disclosures and firm valuation generally draw on the neoclassical economic and finance theory. However, institutional theory offers a popular alternative framework to analyze organizational responses to external pressures and how such external pressures motivate organizations to change and adopt new management practices such as sustainability accounting. Institutional theorists posit that external social institutions constrain firm behavior by defining legal, moral, and cultural boundaries, thus differentiating the legitimate from the illegitimate. These restraints can be regulative (coerced through rules, laws, and sanctions), normative (prescriptively imposed through codes of conduct, accreditation, or certification), or cultural-cognitive (mimetic common beliefs, customs, and logic of action) (Stuart et al.,2022). Firms conform to institutional pressures by incorporating structural elements that are legitimized externally, and conforming organizations are rewarded through increased legitimacy, social stability, reduced uncertainty, extra resources, and survival capabilities (Pozzoli et al.,2022; Kimbrough et al.,2024; Koh et al.,2023). Institutional theorists also recognize that institutional expectations do not apply uniformly to all organizations, and firms can respond differentially to these isomorphic pressures by adopting structural elements selectively or ceremonially by decoupling from operational decision making (Muslu et al.,2019;Ottenstein et al.,2022) in this issue study the motivations of early and late adopters of voluntary corporate social responsibility reporting practices, drawing on 12 in-depth interviews and a survey of 80 respondents from the largest 500 Finnish companies. In contrast to the neo-institutional logic that early adopters are more authentic innovators, while late adopters are driven by mimetic and normative pressures, the authors hypothesize that early CSR reporters are driven by competitive advantage through a differentiation strategy. As a result, the early adopters exhibit higher levels of CSR embeddedness compared to the late adopters of CSR reporting who are imitators that adopt CSR practices ceremonially without embedding CSR in the core control systems. Surprisingly, some firms in their sample that were primarily involved in sustainability-related activities chose not to be early CSR reporters as expected, indicating that their strategic focus on sustainability lessened the need to signal their sustainability ethos through CSR reports. These findings contribute to institutional theory by providing more nuanced insights into factors driving temporal variations in the adoption decisions. The study also raises the question of potential complementary or substitution effects of mechanisms other than disclosure through CSR reports as structural signals to stakeholders.

Stuart et al., (2024) investigated how seemingly similar external pressures elicit diverse internal sustainability reporting systems and processes due to different institutional logics and stakeholder relationships. Using a sample of Canadian oil and gas companies facing the similar institutional pressure to improve transparency about their environmental and social performance, the study investigates how managerial motivation and stakeholder relationships influence the type of control systems the sample firms used for sustainability reporting. Drawing on the interviews of 11 companies and 13 industry stakeholders, they find that the rigor and characteristics of sustainability reporting depend on the managerial motivations and attitudes within companies. This is because companies respond to external pressures through different types of stakeholder relationships. Specifically, the study reveals that when managers are primarily motivated by mandatory requirements to develop stakeholder relationship and sustainability reporting, the control systems are not well developed. The formal responsibility for sustainability reporting in this case resided in one or a few persons or was even outsourced. On the other hand, when managers believe that there is value in preparing individual sustainability reports, they engage in organic learning and benchmarking with industry peers to design sustainability reporting systems that use both formal and informal control mechanisms. When managers are cognitively motivated to do the right things, they work closely with the stakeholders in joint decision making, and in developing performance measures and control systems closely linked to stakeholders' expectations. The study contributes to the literature by considering the joint effect of external pressure, managerial motivations, and stakeholder relationships on the design of the control systems for sustainability reporting.

7- THE INTEGRATION SUSTAINABILITY MANAGEMENT CONTROL SYSTEMS WITH TRADITIONAL MANAGEMENT CONTROL SYSTEMS

Bonetti et al., (2024) in this issue investigates how the integration of Sustainability Control Systems (SCSs) with the more traditional Management Control Systems (MCS) is affected by managerial sustainability orientation (proactive versus reactive). The underlying premise of the study is that, for firms to implement a sustainability strategy successfully, their SCSs must be fully integrated with other MCSs so that organizational decision making is based on the broadest possible set of financial, ecological, and social data. The study posits that the sustainability orientation of managers represents the condition that motivates organizational actors to fully integrate SCSs with traditional MCSs. Applying a field-study methodology to four Italian firms in different industries, the study finds that the nature of companies' sustainability orientation affects the degree and mode of the integration between SCSs and traditional MCSs. Specifically, the two proactively oriented companies deeply integrated their SCSs with their conventional MCSs across a variety of control mechanisms, including strategic planning, internal reporting and rewarding systems, and various operating systems, while such is not the case for the two reactive companies. In addition, the evidence also supports the view that other factors also facilitate the integration process, including organizational arrangement, stakeholder engagement, availability of financial and personnel resources, and existence of commonly accepted key sustainability performance indicators. The study contributes to the literature by shedding light on the complexity of the integration process when implementing a sustainability strategy.

8- THE CORPORATION OF DESIGN OF SUSTAINABILITY MANAGEMENT CONTROL SYSTEMS TO CORPORATE PERFORMANCE

Ahmad et al., (2024) in this issue takes a closer look at how specific features of sustainability management and control systems affect corporate financial performance. Anecdotal evidence posits that environmental responsibility improves operational efficiency and therefore ‘‘it pays to be green.’’ However, if that is the case, then it is not clear why ‘‘being green’’ is not an equilibrium strategy pursued by all firms. The resource-based view (RBV) of firms argues that not every company can benefit from a ‘‘green’’ strategy; rather, only firms with unique resources and management capability can realize the financial benefits from eco-efficiency improvements. These firm-specific resources and capabilities cannot be easily imitated or transferred. Drawing on the natural resource-based view, the author hypothesizes that the combination of sustainability management practices (eco-control package) helps the development of environmental capabilities, which, in turn, contribute to an organization’s environmental and economic performance. The study decomposes the eco-control package into five categories—cultural, planning, cybernetic, reward, and administrative controls—and identifies specific practices under these categories. Analysis based on the survey data from 249 Canadian manufacturing companies suggests that the eco-control package fosters capabilities in eco-learning, continuous environmental innovation, stakeholder integration, and shared environmental vision. These capabilities, in turn, contribute directly to the firm’s environmental performance and indirectly to economic performance. Results also indicate that different eco-control practices support different environmental capabilities. Therefore, simultaneous use of several eco-control practices may be necessary to support development of comprehensive environmental capabilities. The study contributes broadly to the resource-based view literature by characterizing specific mechanisms under which firms obtain environmental capabilities.

9- SUSTAINABILITY OF SUSTAINABLE ACCOUNTING: CONCLUSIONS AND FUTURE DIRECTIONS

Some critical theorists have raised more fundamental concerns about the sustainability of sustainability accounting itself, i.e., whether sustainability accounting is just a ‘‘passing fad’’ (Alsayegh et al.,2020). The demand for sustainability reporting and accounting arose primarily from increasing societal concerns about the sustainability of the human economic system as its rapid growth began to test the biophysical limits of the planetary ecosystems. It is questionable if firms’ accounting systems will ever be able to address these broader system sustainability concerns, because of the primacy of the entity concept in accounting. Biophysical sustainability is an outcome of aggregate and complex effects of actions of many firms and agents, resulting in physical and material interactions with ecosystem processes and carrying capacities. Characterizing and assessing these sustainability effects are beyond the information generation capabilities of firms’ financial accounting systems that are limited by the entity concept and that focus on monetary transactions. Others question whether sustainability accounting can even address the issue of sustainability of the firm as an entity, because clearly defining what a sustainable firm looks like itself is not possible. Therefore, chasing corporate sustainability is an inherently flawed exercise (Bofinger et al.,2022; Ifada et al.,2023; Istiningrum et al.,2024;). On the other hand, accountants appear to be comfortable with the concept of a going concern, which is similar to the concept of a sustainable organization. Also to the extent that an effective environmental target can be set for assuring eco-system sustainability (e.g., total allowable carbon emissions into the atmosphere that limit global warming to an acceptable degree, or total allowable nutrient loads that a waterbody can sustain), environmental accounting at a firm level can still provide useful information for managerial decision making and for assessing a firm’s contribution and eco-efficiency relative to industry peers.

While the debate about the usefulness and capability of corporate accounting systems to optimally address sustainability will continue, the reality is that external pressures for corporations to address and at least to facilitate directionally sustainable decision making are likely to persist and indeed increase over time. Stakeholders will increasingly seek information on the environmental and social impacts of business operations. Businesses must demonstrate efforts to incorporate externality effects in decision making as a prerequisite for obtaining legitimacy and license to operate. Also given the growing resource scarcity, environmental risks, market differentiation, and emerging business opportunities, it will be in the strategic interest of businesses to monitor and manage environmental and social issues actively, and ceremonial adoption of CSR may not be adequate. Sustainability accounting systems will be needed to meet the information needs of external stakeholders and, more importantly, to facilitate strategically material internal decisions by managers. Providing such decision-relevant information in a timely manner for a variety of operational and strategic decisions is likely to be a major focus of future sustainability accounting systems.

Development of such instrumental sustainability accounting systems will require the accounting profession to step outside its comfort zone and measure and manage external environmental and social impacts. Extending the boundary of analysis beyond the ‘‘entity’’ has implications for both accounting and management control system design. As (Clarkson et al.,2019) discuss, theoretical analysis of the more complex principal agent problem, where the principal's utility function includes broader environmental and social objectives, will need to continue. Similarly, CSR-related investment decisions would need an estimation of external social and environmental benefits, which may not at all be captured by accounting systems, or may be captured through complex, delayed, and uncertain pathways, raising difficulties in tracking and matching. For example, estimating the firm-specific global warming and health risk reduction benefits achieved by investments in pollution reduction technologies is likely to be very challenging. Yet firms will continue to make these public good investments, due to regulative and normative pressures. Decision makers and accounting systems may have to draw on the vast economics literature on valuation of non-market goods and ecosystem services in making these benefit estimates and to justify investments (Al-Shaer et al.,2022). Useful insights for firm sustainability accounting may also come from the growing literature on Green GDP and Integrated Economic and Environmental Satellite Accounts that aim to address the limitations of GDP as a welfare measure, especially its failure to account for depreciation and changes in stocks of natural and social capital in national income and product accounting (Tsang et al.,2024; Kim et al.,2024). Such nonmarket valuation information will be required on a regular basis to make informed trade-offs among financial, social, and environmental objectives. Research efforts will be needed to facilitate verification, standardization, and incorporation of nonmarket valuation information into firms' accounting systems.

Along similar lines, extended producer responsibility (EPR) regulations and voluntary initiatives require firms to take responsibility for products and packaging materials at the end of their useful lives, possibly long after the initial sales. This raises interesting accounting questions about revenue and cost recognition and the matching concept. Product life cycle analyses mandated under several regulations and labeling requirements would require firms to quantify resource use and wastes through the entire life cycle of a product covering the input supply chain to distribution and ultimate disposal. Collection, aggregation, and characterization of these data will challenge current accounting systems.

The emergence of several CSR reporting standards like GRI, SASB, and IIRC also open interesting research opportunities with respect to analyses of the drivers of the convergence/divergence of such standards, underlying political economy and market factors, dynamics of adoption, firms' strategic choice among these disclosure standards, and corresponding market re- calibration of valuation models. The widespread adoption of sustainability reporting in recent years has created new business opportunities for the accounting profession, and all big accounting firms now provide sustainability reporting-related services. The accounting profession has an inherent interest in promoting corporate sustainability reporting because of many structural similarities between financial reporting and sustainability reporting. Anecdotal evidence indicates that accounting firms appear to play a big role, including certification, identifying relevant stakeholder groups, designing information systems to ensure data integrity and reliability, and choosing proper sustainability performance indicators to meet stakeholders' expectations. Nonetheless, little is known about the impact of accounting firms' involvement in firms' decision to adopt sustainability reporting and a sustainability strategy. In addition, there is limited research on the usefulness, credibility, and reliability of CSR disclosures to different stakeholders. Extant studies tend to focus on firms' decision to publish a standalone CSR report with minimal effort to evaluate the information content and to match the content with stakeholder's expectations. The current debate on the relationship between corporate social and environmental performance and future financial performance is likely to continue, and the availability of more accurate, detailed, and comparable information about corporate social and environmental investments through adoption of CSR reporting standards will enable more refined and nuanced analyses. Similarly, design and evaluation of sustainability management and control systems, and scorecards using modern Big Data analytical techniques is an open field with rich research possibilities.

10- CORPORATE SUSTAINABILITY IN EGYPTIAN REALITY

Global Capital markets are increasingly capitalizing on the concept of sustainability, and on facilitating the required financing mechanisms for achieving the Sustainable Development Goals (SDGs) which were initiated by the United Nations in 2015. An emphasis is thus made on the role of exchanges in enhancing Environmental, Social and Governance (ESG) practices among listed companies; and also, an emphasis is made on the role of exchanges in promoting and endorsing trading platforms for sustainable financial products. As investor demand for information on listed companies' performance in terms of ESG disclosures has grown, there has been a rise in global efforts and initiatives on capital market sustainability; to develop a set of benchmarks that will enable listed companies to report on their ESG performance. Being a pioneer exchange in promoting sustainability, the Egyptian Exchange (EGX) strives to improve transparency in Egyptian Capital Market and ensure that sustainability is well defined and disclosed by listed companies. Using the guidance for preparing ESG information report will help listed companies in achieving a more effective way to comply with the international sustainability reporting standards and requirement such as GRI and UNGC, as follows the International Accepted Reporting Frameworks, and SSE ESG information report guidance. And the recommended steps for preparing an effective ESG information report according to SSE model guidance on ESG reporting, and internationally accepted reporting frameworks, these steps will include the followings: One: Rationale for ESG Information Disclosure, Two: Responsibility and Oversight Section Three: ESG Information Report Preparation – figure (2)

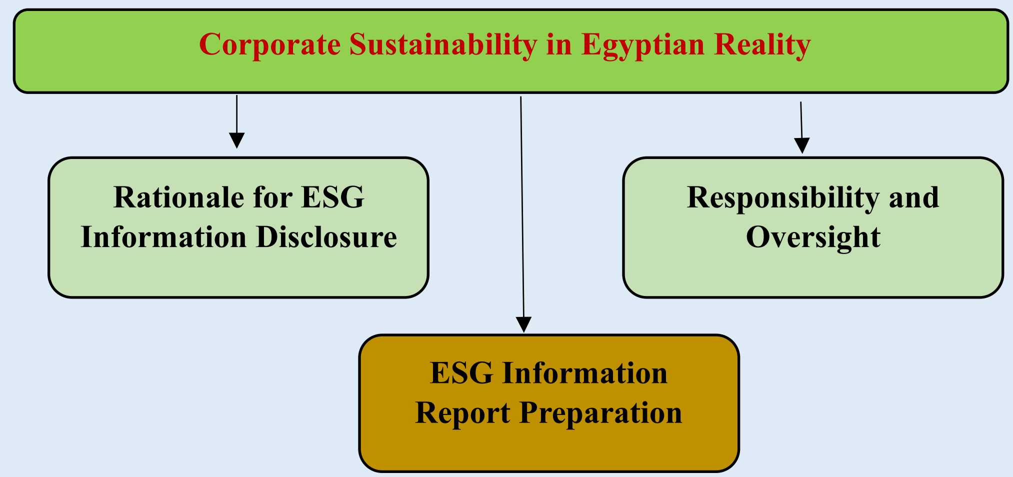

FIGURE (2)
CORPORATE SUSTAINABILITY IN EGYPTIAN REALITY

10-1 The Theory Explaining Corporate Sustainability from a Management Accounting Perspective

Corporate sustainability is a vital topic in management accounting, and the theory explaining it provides a comprehensive view on how to integrate economic, social, and environmental dimensions into managerial decision-making. Below are the key theories and concepts that explain corporate sustainability from a management accounting perspective:

10-1-1 Stakeholder Theory (Garvare & Johansson, 2010)

Principle: Focuses on meeting the needs of all stakeholders in a company (shareholders, employees, customers, society, environment). Role of Management Accounting: Measure and evaluate the impact of activities on all stakeholders. Develop non-financial performance indicators (e.g., employee satisfaction, environmental impact). Prepare balanced reports (e.g., Balanced Scorecard) that include social and environmental dimensions.

10-1-2 Corporate Social Responsibility (CSR) Theory Jamali & Mirshak, (2007)

Principle: Companies commit to responsibilities beyond profit-making, contributing to sustainable development. Role of Management Accounting: Analyze the costs and benefits of social and environmental initiatives. Develop green accounting systems to measure environmental footprints. Integrate environmental compliance costs into financial planning.

10-1-3 Multiple Capital Theory Schmid, & Robison, (1995)

Principle: Companies rely on multiple forms of capital (financial, human, natural, social) to achieve sustainability. Role of Management Accounting: Measure and manage non-financial resources (e.g., intellectual capital, natural resources). Use tools like *Integrated Reporting* to display performance across all capital forms.

10-1-4 Externalities Theory (Ciccone, & Peri,2006)

Principle: Economic activities generate unaccounted costs or benefits (e.g., pollution), affecting sustainability. Role of Management Accounting: Analyze negative externalities and incorporate them into pricing and investment decisions. Apply Full Cost Accounting to include environmental costs.

10-1-5 Theory of Constraints (TOC) in Sustainability (Rahman, 1998)

Principle: Identifies obstacles preventing a company from achieving sustainability (e.g., resource shortages, inefficiencies). Role of Management Accounting: Analyse bottlenecks in the value chain affecting sustainability. Optimize resource allocation to maximize economic and environmental efficiency.

10-1-6 Sustainable Costing Framework (Lamberton, 2005)

Principle: Evaluates long-term costs of activities, including environmental and social costs. Management Accounting Tools: Life Cycle Assessment (LCA): Evaluates a product's environmental impact from production to disposal. Carbon Pricing: Incorporates carbon emission costs into managerial decisions.

10-1-7 Triple Bottom Line (TBL) Model (Majid & Koe, 2012)

Principle: Evaluates performance across three dimensions: Profit, People, Planet. Accounting Application: Develop Key Performance Indicators (KPIs) for each dimension. Prepare sustainability reports balancing financial and non-financial goals.

10-2 Rationale for ESG Information Disclosure

Due to the global financial crisis, business leaders and financial practitioners have been forced to rethink the fundamentals of mainstream asset pricing and business models. The crisis exposed the vulnerability of global capital markets and national economies to systemic shocks and the devastating effect these have on economic growth and stability. The exposure of markets to shocks has brought to light the importance of Listed Companies and financial institutions incorporating systemic environmental, social and governance (ESG) factors into fundamental financial analysis and business planning.

10-2-1 Environmental, Social and Governance (ESG)

While ESG issues are at times called ‘non-financial’ or ‘extra-financial,’ how a company manages them undoubtedly can have financial consequences. They can impact companies’ revenue growth and market access, cost savings and productivity, access to capital, risk management, license to operate, human capital, brand value and reputation.

Which ESG issues impact a company may vary by company, industry and location, and over time. Thus, international initiatives adopted a range of potential ESG issues for companies, such as the Global Reporting Initiative’s G4 Sustainability Reporting Guidelines1 (with over 140 indicators), as well as standards issued by the Sustainability Accounting Standards Board (SASB) on material issues by sector (with an average of seven topics per industry).

When exploring what ESG means, it is important to note that while this document primarily uses the term’s because it is common among investors, other stakeholders may use different terms. Many companies, as well as UN and government bodies, use the term ‘sustainability.’ Other terms used may include, but are not limited to corporate social responsibility, corporate citizenship and stewardship, sustainability or sustainable development, sustainable business, business responsibility, shared value or triple bottom line.

10-2-2 Why ESG?

ESG factors are increasingly recognized as important for investors and issuers alike, providing voluntary guidance to issuers on reporting these considerations can be a direct and influential opportunity for exchanges to facilitate effective corporate communication.

A. For the Egyptian Exchange (EGX):

Exchanges promoting greater transparency of high-quality ESG information are:

- Developing well-functioning markets, which are more resilient and less volatile.
- Contributing to stronger, more transparent listed companies that are better able to identify and manage risks and opportunities.
- Creating more attractive markets where investors can better evaluate fundamental drivers of value creation, and as more investors recognize the value of ESG information, they will direct more of their activity to exchanges that foster it.
- Helping companies navigate, comply with or stay ahead of regulations that require disclosure of financially material ESG information.
- Assisting companies in differentiating themselves on ESG matters, which is quickly becoming a competitive imperative.
- Contributing to the achievement of national and international sustainable development commitments and priorities, such as the UN Sustainable Development Goals, and steering investment towards sustainable development priorities.

B. For the Listed Companies Improve Access to Capital:

- Integrating sustainability aspects can result in better strategies and organizational strengths, for listed companies which may in turn translate into improved investment returns and enhance the company's ability to attract long-term capital and favorable financing conditions.
- Enhance the company’s ability to attract longer-term investors, including major institutional investors such as pension funds.

Profitability and Growth:

- Generate financial value for the company by identifying opportunities for cost savings, revenue generation, and risk mitigation.
- Drive continuous improvement by creating accountability and fostering collaboration with stakeholders.
- Create a deeper understanding of stakeholder needs, which could drive innovation and enhance market differentiation and competitiveness.
- Enable management and board scrutiny of ESG opportunities and risks and promote company-wide alignment on goals.

Enhance Compliance and Risk Management:

- Sustainability management and reporting enables companies to identify risks from an integrated perspective and to develop appropriate mitigation strategies.
- Corporate sustainability disclosure enables investors / analysts to define the risk / return profile of a potential investment target more accurately. In an investment portfolio, leveraging opportunities while incurring limited risk may lead to a risk-adjusted above-average return.
- Help the company stay ahead of emerging ESG and disclosure regulations.

Enhance Corporate Reputation and Branding:

- Demonstrate corporate commitments to responsibly managing environmental, social and economic impacts.
- Exhibit corporate adherence to industry ethical standards and national and international frameworks on corporate sustainability and sustainable development, particularly considering the UN Sustainable Development Goals.
- Enhance corporate reputation by improving stakeholders’ perception of a company through reporting-related stakeholder engagement.
- Improve employee perception of the company, helping to attract, retain, motivate and align new and existing employees.

Increase Employee Engagement:

- Sustainability helps companies to improve human resources policies and indirectly improve employee morale and loyalty.

10-3 Responsibility and Oversight

The well-functioning companies with effective sustainability strategies have one thing in common- their sustainability strategies are incorporated into their corporate values and strategies, which assist in embedding sustainability activities into day-today business activities, which will support effective monitoring and measuring of the associated impacts of the sustainability activities.

10-3-1 Organization responsibility towards sustainability

FIGURE (3)
ORGANIZATION RESPONSIBILITY TOWARDS SUSTAINABILITY

10-3-1-1 Set sustainability focus area:

The sustainability team, senior management and the board have to review various inputs and agree upfront on what sustainability means for their business, the key issues and challenges they may face. Adopting sustainability as a business strategy often requires a cultural change. Developing a Sustainability Policy is crucial in translating strategies and commitments into objectives and management guidelines. The policy should state the organization's aims and procedures in sustainability management. The organization should set clear and objective targets for specific indicators, publish them, and ensure that they can easily be tracked both internally and by external stakeholders. The company needs to adapt its corporate commitments and management systems, as well as its performance assessment system. Management systems is required to monitor company implementation via processes and procedures by selecting and computing appropriate indicators.

10-3-1-2 Establish Resources for the Necessary Changes:

Resources required aiming to support sustainability efforts of an organization should be identified and included in the company's budgeting process. Resources include financial assets and property, employees, raw materials, customers and intellectual property. A sustainability diagnosis is a must. It will detect any gaps in the company and serve as a basis for a short-, medium- and long-term action plan. This process will also pinpoint the areas in which the organization requires alignment and identify the existing structures, processes and systems that should be kept because they are already adequate to the new strategy.

10-3-1-3 Formalize Responsibilities and Their Associated Roles:

A formalized sustainability structure with clearly defined employees, their associated roles and responsibilities and job descriptions with updated key performance indicators can be developed. A formalized sustainability reporting and governance structure can help derive sustainability maturity in the organization.

10-3-1-4 Set evaluation measures for sustainability projects and its progress:

A defined set of criteria, which may include process and impact measures to assess sustainability projects along with targets, can be created to provide clarity to the management or board when selecting sustainability projects for adoption. Feasibility studies are conducted to support decision making on whether to implement projects. To assess the success or the failure of projects, metrics or a dashboard should be defined for different stakeholders. It is good practice for companies to communicate their sustainability targets and metrics to relevant stakeholders to support achievement of targets.

10-3-1-5 Develop Sustainability Reporting and Defining Materiality:

Develop internal reporting templates, guidelines, processes, and responsibilities to ease the compilation and analysis of data that will support both internal and external sustainability reporting. assurance/ external verification should also be conducted to increase credibility of the report. This should be done according to materiality. An issue is said to be material when it has a significant impact on a company's financial performance and/or on its image and reputation.

10-3-1-6 Develop Stakeholder Engagement Plan:

Stakeholder engagement demonstrates a visible commitment to sustainability and a company should clearly determine the purpose of stakeholder engagement when embarking upon this. The company's key stakeholders and their main concerns should be identified, prioritized and mapped to help identify the material sustainability issues for the company. Outcomes of the stakeholders' engagement should be reviewed and reported.

10-3-1-7 Engage to a Public Commitments:

Several collective commitments, which may be general or sectoral, can also help your company formulate a sustainability strategy and develop management processes in this direction, as well as including it in a network of learning and interaction with stakeholders. There are commitments, such as U.N. Global Compact, Women's Empowerment Principles-WEPS, and Global Investor Statement on Climate Change. It offers practical proposals on how the contribution may be accelerated and increased through appropriate action. The important thing is for each organization to find the sectoral or thematic commitments that are relevant to its core activities.

10-3-2 Board of directors' role in promoting Sustainability

A company's board of directors plays an important role in developing a roadmap for sustainability governance. Good planning of implementation procedures and proper governance mechanisms can help a broad successfully integrate sustainability into its mandate. Below is a roadmap developed for boards that start out and boards that are ready to take it to the next level.

Stage One: For boards just starting out

1. Build sustainability into the firm’s mission and values

Establish sustainability mission, vision, values, principles, and polices in consideration or stakeholder priorities and international standards

2. Communicate board's commitments

Communicate the Board's sustainability commitments internally and to stakeholders.

3. Build sustainability into risk management

Include social and environmental considerations in risk and opportunity identification management, and monitoring

4. Integrate sustainability into business strategy and provide oversight

Integrate sustainability into business strategy and corporate plans, set goals, objectives, and targets, and monitor performance against targets.

5. Mandate a committee with sustainability responsibility

Include a sustainability mandate within a pre-existing committee or establish a new committee with a clear mandate.

6. Report to stakeholders on sustainability performance

Review and approve third party audited sustainability report for distribution to shareholders and stakeholders ensure sustainability report complies with international sustainability reporting standards.

Stage One: For boards ready to take sustainability to the next level

7. Reward executives for sustainability performance

Incorporate non- financial/ long-term objectives into executive compensation, ensure performance management systems reward sustainability performance.

8. Recruit directors with sustainability perspectives

Explicitly include sustainability in director recruitment.

9. Orient and train directors on sustainability

Include sustainability in director orientation, training and education, and board evaluation, ensure board is provided with adequate sustainability expertise and information to make informed decisions

10. Provide mechanisms for stakeholder input

Ensure mechanisms are developed for board consideration of unfiltered input from stakeholders.

11. Recruit CEOs with sustainability competency

Ensure CEO candidates are assessed for sustainability awareness and competency.

12. Consider sustainability in major business decisions

Include consideration of sustainability in major acquisitions, business partnerships, mergers and investments

10-3-3 Proposed Governance & sustainability committee mandate

The Governance and Sustainability Committee assists the board in fulfilling its oversight responsibilities relating to the company's corporate governance matters.

General Responsibilities:

• **Policies:** Review and recommend sustainability policies and management systems. Monitor compliance with policies, commitments, and regulations.

• **Strategy:** Review/ recommend sustainability strategies and plans provide guidance to management on objectives and targets, provide oversight and guidance on sustainability performance/ progress.

• **Trends:** Monitor and provide recommendations on public policy, consumer, stakeholder, corporate, and general public trends, issues, and developments that could impact the company.

• **Risk Management:** Monitor and oversee sustainability risk management plans, review effectiveness of issue identification and management.

• **Stakeholder Engagement:** Review and monitor stakeholder relations, consider opportunities for direct stakeholder input into committee deliberations.

Sustainability Report: Determine overall scope of provided input on and recommend board adoption of board sustainability report.

• **Incident Management:** Review incidents and remedial actions and monitor crisis readiness and emergency plans.

• **Sustainability Assessment:** Review and make recommendations on sustainability impacts to support the sustainable growth of the company's business decision.

Structure and Organization

• The committee will be composed solely of directors who are independent of the management of the company and are free of any relationship that may interfere with their exercise of independent judgment as a committee member.

• The committee will consist of at least three members of the board of directors. Committee members and the committee chair serve at the direction of the board of directors.

• The committee is expected to have a minimum of four meetings a year or more frequently as deemed appropriate. The committee may ask members of management or others to attend the meetings and provide pertinent information as appropriate. Meetings are generally held in person but may also be held by video or telephone conference if necessary.

• The committee has the authority to retain and terminate any search firm used to identify director candidates and to retain or obtain the advice of independent legal or other advisors, in each case as the committee may deem appropriate, including the authority to approve the firms' fees and other retention terms. The company will provide funding for such advice.

• The committee or the board may reassign the responsibilities of this committee to a sub-committee or another committee of the board's choosing as long as the committee or sub-committee is composed entirely of independent directors.

10-4 Responsibility and Oversight

The Egyptian Exchange is providing ESG guidance and recommendation for listed companies complying with the SSE-Model Guidance for Reporting on ESG, also EGX is encouraging listed companies to adopt internationally accepted reporting frameworks, such as the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, in disclosing company's sustainability performance. Reporting on ESG should start with enabling the sustainability concept in company's daily activities, and engaging both, the board of directors and the stakeholders in prioritizing and identifying sustainability goals and objects of the listed company. Then defining and determining the material issues for reporting, and identifying the KPIs which company should monitor and effectively report them on a periodical base. The followings are recommended steps for preparing ESG information report.

10-4-1 Enabling Sustainability in the company

With the increased demand for inclusive economic growth and sustainability, the leading companies should have embedded sustainability into ongoing business practices. Listed companies could start to enable sustainability in the ongoing business activities, which will support effective monitoring and measuring the impact of sustainability activities. The enabling process could include the followings: Define Sustainability Strategy. Establish annual resource need. Formalize responsibilities and report structure. Set evaluation criteria. Use relevant measures to monitor progress of sustainability activities. Develop a stakeholder engagement plan.

10-4-2 Engaging Board of Directors

The board of directors' responsibility for the strategic direction of a company includes integrating ESG considerations in the company's strategy[5]. By embedding sustainability into their core duties, directors are uniquely positioned to ensure the mainstreaming of ESG issues into business strategy, organizational culture, and operational practices in a way that supports the long-term profitability and viability of the company[6]. It is common for companies to involve board of directors in defining ESG rationale and objectives, and provide governance mechanisms for addressing ESG issues across all levels of the organization. As investors increasingly acknowledge that properly managing ESG issues is vital to a company's long-term value creation, the boards' fiduciary duty to protect shareholder interests clearly includes the oversight of these issues. Consequently, boards have an essential role to play in ensuring that corporate reporting addresses ESG issues that are critical to investors' decision-making. Depending on national regulations and exchange rules, board members may also have specific obligations to ensure and certify that disclosures do not misrepresent or omit material information. While the board plays a key role in overseeing activities at each stage of the reporting process, from the investors' point of view, its role in two areas is particularly critical. First, the board holds the ultimate responsibility to establish which stakeholders are material to the company (and therefore should compose its reporting audience) as well as what ESG issues are material (and therefore should compose its reporting content). Secondly, the board oversees report assurance. In this regard, the company may consider obtaining assessment and/or assurance by a stakeholder panel and/or credible external assurance provider. Making board approval a part of the report finalization process (e.g., through an audit committee review) ensures high-level accountability for ESG disclosure. In addition to discussing the findings of assurance with management and assurance providers, directors may oversee the implementation of third party recommendations on disclosure processes and content[7].In addition to overseeing the reporting process, the board may directly communicate the company's ESG priorities and processes to investors by issuing a statement. This statement clarifies the board's position on which stakeholders are most significant for the long-term interests of the corporation and what issues are material. It could include insights on how the board determined the relative importance of different stakeholders and issues, as well as within what time frame it made these judgments. Developing this statement is also an opportunity for the board to reflect on the company's role in society and sustainable development. Such a statement can provide transparency regarding the board's position on and oversight of the company's ESG risks and opportunities, and strengthen the company's credibility when communicating on ESG issue.

10-4-3 Engaging Stakeholders

It is no longer enough for companies to focus on managing only their shareholders; they also need to engage other stakeholders. Managing key stakeholders such as regulators, customers, suppliers, business partners, employees and communities are becoming more increasingly important. Stakeholders can have a significant impact on a company's market value especially its intangible value. Instances of product boycotts, employee strikes and anti-product campaigns can cause the market value to fall. Stakeholder engagement helps a company communicate openly which makes it easier to build trust between a company and its stakeholders. While it is ultimately the responsibility of a company's board of directors to establish which ESG issues should be reported, stakeholder engagement can be a beneficial action.

A. Benefits of Stakeholder Engagement:

- Proactively engaging can help a company identify, mitigate, and manage ESG risks.
- Better relationships within the community, helps understanding sustainability concerns.
- Helps identify emerging issues that may influence market conditions.

Disclosing a company's engagement process will help investors understand if and how well a company is integrating ESG risks and opportunities into planning and operations,

- Can be a source of innovation, future opportunities and new partnerships that fuel strategic growth.
- Better engagement helps companies to get external feedback and advice from stakeholders.

B. Identifying Stakeholders:

The world business council for sustainability development highlighted two categories of stakeholders

1. Direct stakeholders include shareholders and employees, often considered to be an organization's most important asset.

2. Indirect stakeholders include all the individuals and organizations within the company's sphere of influences, such as customers, suppliers, NGOs, capital markets, financial analysts, government agencies and local communities.

C. Stakeholders Engagement Methods:

Engaging stakeholder could be done through four major methods and relationships between listed company and stakeholders:

Communication: any manner of information-sharing with stakeholders' trough one-way, non- iterative processes.

Consultations: through gathering information or advice from stakeholders and taking those views into consideration.

Dialogue: an exchange of views and opinion to explore different perspectives, needs and alternatives, with a view to fostering mutual understanding, trust and cooperation on a strategy or initiative.

Partnership: in the context of sustainability interactions, partnership has been defined as people and organizations from some combination of public, business and civil constituencies who engage in common societal aims through combining their resources and competencies sharing both risks and benefits.

10-4-4 Identifying Issues

Listed company can decide the relevant scope and content of its ESG disclosures. The depth and breadth of the disclosure will also depend on its business model, geographic presence, established reporting objectives, as well as resources and other unique characteristics. The language used and the way the issues are presented should resonate with the target audience. It may not be desirable or possible to provide information on every facet of a company's ESG performance. An effective, targeted report will cover ESG issues that are relevant to business strategy and will illustrate the link to long-term financial value. Thinking through each step of a company's value chain can help develop a comprehensive understanding of the ESG issues that could potentially be relevant for disclosure. This will help increase the likelihood that investors will use the information, as well as detect trends in how their needs are changing before or as they shift, rather than after the fact. A company can use a variety of national and international resources to develop an initial list of ESG issues, for example a company looking at human rights should review the United Nations Guiding Principles Reporting Framework[10]. These are good starting points because they are often based on consensus reached through years of discussions in multi-stakeholder forums. These resources can be used in complementary ways to inform different types of disclosure targeted to various audiences.

10-4-5 Identifying Issues by Sector/Industry

Listed companies also can identify the key sustainability focus areas per sector/ industry as follows:

• **Industrial products:** Safety, clean internal combustion, energy efficiency and proper disposal options for retired products are key issues for this sector. Improving the efficiency and having the ability to prepare for present and future carbon constraints are essential considerations when developing products. Occupational health and safety, human rights and equality are also other challenges present in the industry especially as the workforce tends to be culturally diverse. Exposure to human rights and abuse issues are key considerations as suppliers penetrate emerging markets.

- **Trading/ services:** Some key issues across this sector are energy efficiency, greenhouse gas (GHG) emissions, the availability of clean water and waste management. Threats to biodiversity and the management of ecosystems need to be addressed. Equal employment opportunities and the eradication of gender bias are other issues faced by companies in this sector.
- **Consumer products:** Climate change issues are of primary importance. They affect the supply chain and the source of many consumer products. Ethically sourced products have also gained importance amongst various stakeholders although supply costs may increase. It is essential for consumer product groups to constantly engage and maintain stable relationships with their suppliers in the long term to ensure that transparent reporting exists throughout the supply chain process.
- **Properties:** Energy efficiency and climate change are major concerns for the property sector. Increasing energy costs have made the amount of operational energy used in buildings a distinctive factor for their attractiveness. Limited land availability, threats to biodiversity and the supply and usage of sustainable materials are other key concerns.
- **Construction:** The difficulty in establishing proper controls over energy usage, responsible use and management of resources and organizational health and safety issues have always been key areas of concern. Water scarcity and energy consumption are key in establishing the resource conscious status of construction services providers. Proper codes of conduct established and implemented in a company can prevent involvement in anti-trust and bribery cases.
- **Plantation:** Primary challenges include ensuring responsible management of forests and plantations and responsible sourcing. Other issues include minimizing environmental impact of operations, complying with labor legislation, talent attraction and retention, occupational health and safety as well as identifying suppliers with similar sustainability values. Threats to indigenous communities, chain of custody issues, GHG emissions and management of ecosystems are issues that are gathering focus.

- **Finance:** Accountability and transparency have become increasingly important in building competitive advantage in the finance industry. Established compliance and risk management standards have become vital. In addition, climate change, changes in an economy's demography and disintermediation of value chains will continue to impact the economic environment. Talent retention will persist as an issue for the industry.

- **Technology:** Key issues include conservation of energy and resources, reusing and recycling programmers, waste management and proper waste disposal. Security over the use of information technology and confidential data is also an issue in relation to client privacy. Other sustainability issues include the use of hazardous materials and maintaining fair working conditions.

- **Hotels:** Most hotels groups have acknowledged that climate change, employment practices, community welfare, waste management and sustainable buildings are main issues. Integration into local cultures, the sustainability of franchisees, the climate change impacts of tourist travel are rarely considered.

- **Mining:** The major challenges for industry include managing the environmental and regulatory requirements, improving mining safety and increasing operating costs due to the shortage of skilled workers. Management and reduction of GHG emissions as well as occupational health and safety remain major issues. Mine closure planning has recently gained momentum and requires structured stakeholder engagement activities as well as sophisticated modeling.

10-4-6 Identifying Material Issues

The sustainability report should reflect the company's significant economic, environmental, and social impacts. Relevant (or 'material') topics for a reporting companies should include those topics that have a direct or indirect impact on its ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders, the environment, and society at large.

Thus identifying the material of sustainability issues is a crucial step ahead of reporting on ESG information. EGX will depend on GRI guidance in defining the materiality in the context of a sustainability report. As GRI stated in material report[11], "The materiality focus of sustainability reports is broader than the traditional measures of financial materiality". In financial reporting, materiality is commonly thought of as a threshold for influencing the economic decisions of those using an organization's financial statements – investors in particular. Materiality in sustainability reporting is not limited to those sustainability topics that have a significant financial impact. Determining materiality for a sustainability report includes considering economic, environmental, and social impacts that cross a threshold in affecting the ability to meet the needs of the present without compromising the needs of future generations. A material reporting enables external stakeholders to understand companies' true value, and tangible and intangible assets, providing a critical source of information for affected communities and stakeholders. Material reporting mitigates and improves companies' impact on society, local economy and environment. In the absence of a universal understanding of which ESG issues are material, as mentioned previously the board of directors of a company is responsible for making adequate decisions with respect to the application of the materiality principle and its effects on the content of its ESG disclosure.

10-4-7 Disclosing Relevant KPIs

Once a company has established which ESG issues to report on (e.g. human rights) it will need to develop performance indicators to measure and track progress (e.g. percentage of personnel receiving human rights training). These indicators may be generic, industry-specific, or company-specific. Guidance from reporting organizations mentioned throughout this document suggests relevant indicators for many ESG issues. From the investor perspective, relevant, consistent, comparable, balanced and reliable information is key; as is linking it to the organization's overall strategy, and when feasible, financial performance. Quantitative data is also in high demand because it can be easily compared with similar data from other organizations and incorporated within investment valuation and credit rating models. A crucial underpinning to all of this is that the information is contextualized. For example, ESG data for any given year should be supported with comparisons to historic trends, future goals and industry averages. Visual representation also matters greatly and a company may wish to engage communication and graphics specialists from an early stage. Thoughtful presentation formats can improve the usability of corporate disclosure. Using info-graphics to illustrate processes, clearly organized and defined tables, and concise writing to can enhance stakeholders' comprehension of the ESG disclosure.

11- Conclusion and recommendations

11-1 Conclusion

11-1-1 Exchanges promoting greater transparency of high-quality ESG information are:

• Developing well-functioning markets, which are more resilient and less volatile.

• Contributing to stronger, more transparent listed companies that are better able to identify and manage risks and opportunities.

• Creating more attractive markets where investors can better evaluate fundamental drivers of value creation, and as more investors recognize the value of ESG information, they will direct more of their activity to exchanges that foster it.

• Helping companies navigate, comply with or stay ahead of regulations that require disclosure of financially material ESG information.

• Assisting companies in differentiating themselves on ESG matters, which is quickly becoming a competitive imperative.

• Contributing to the achievement of national and international sustainable development commitments and priorities, such as the UN Sustainable Development Goals, and steering investment towards sustainable development priorities.

11-1-2 For The Listed Companies Improve Access to Capital:

• Integrating sustainability aspects can result in better strategies and organizational strengths, for listed companies which may in turn translate into improved investment returns, and enhance company's ability to attract long-term capital and favorable financing conditions.

• Enhance the company's ability to attract longer-term investors, including major institutional investors such as pension funds.

Profitability and Growth:

• Generate financial value for the company by identifying opportunities for cost savings, revenue generation, and risk mitigation.

• Drive continuous improvement by creating accountability and fostering collaboration with stakeholders.

- Create a deeper understanding of stakeholder needs, which could drive innovation and enhance market differentiation and competitiveness.
- Enable management and board scrutiny of ESG opportunities and risks, and promote company-wide alignment on goals.

Enhance Compliance and Risk Management:

- Sustainability management and reporting enables companies to identify risks from an integrated perspective and to develop appropriate mitigation strategies.
- Corporate sustainability disclosure enables investors / analysts to define the risk / return profile of a potential investment target more accurately. In an investment portfolio, leveraging opportunities while incurring limited risk may lead to a risk-adjusted above-average return.
- Help the company stay ahead of emerging ESG and disclosure regulations.

Enhance Corporate Reputation and Branding:

- Demonstrate corporate commitments to responsibly managing environmental, social, and economic impacts.
- Exhibit corporate adherence to industry ethical standards and national and international frameworks on corporate sustainability and sustainable development, particularly in light of the UN Sustainable Development Goals.
- Enhance corporate reputation by improving stakeholders' perception of a company through reporting-related stakeholder engagement.
- Improve employee perception of the company, helping to attract, retain, motivate and align new and existing employees.

Increase Employee Engagement:

- Sustainability helps companies to improve human resources policies, and indirectly improve employee morale and loyalty.

11-2 Recommendations:

11-2-1 Corporate sustainability in management accounting relies on multiple theories aimed at integrating non-financial dimensions into strategic decisions. Through tools like cost-benefit analysis, integrated reporting, and green accounting, companies can balance profitability with social and environmental responsibility, ensuring long-term survival in a competitive and evolving market.

11-2-2 For further research to explore the adoption of sustainability strategies, their impact on firm performance, and the development of effective sustainability accounting systems, signaling a critical shift towards incorporating sustainability into core business practices.

11-2-3 the necessity for the accounting profession to evolve beyond its traditional boundaries to include assessments of environmental and social impacts. This evolution in accounting practices is crucial not only for complying with external pressures but also to create strategic advantages in an increasingly resource-constrained and environmentally conscious market. The findings suggest that businesses that actively monitor and manage sustainability issues are better positioned to maintain their legitimacy and enhance shareholder value in a rapidly changing economic landscape.

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المستخلص

يهدف البحث الى استكشاف العلاقة المحورية بين الاستدامة المؤسسية وممارسات المحاسبة الإدارية، مؤكدًا أن الشركات يجب أن تعمل ضمن أطر بيئية واجتماعية من أجل تحقيق النجاح المالي المستدام على المدى الطويل. ومع تزايد الضغوط الناتجة عن التوسع الاقتصادي العالمي على النظم البيئية، تتصاعد مطالب أصحاب المصلحة للحصول على شفافية أكبر فيما يتعلق بالتأثيرات البيئية والاجتماعية لعمليات الشركات. ويؤدي هذا الطلب إلى دفع الشركات لتعزيز تقارير الاستدامة الخاصة بها، ودمج مؤشرات الأداء البيئي والاجتماعي ضمن أنظمة التقارير المالية التقليدية وأنظمة الرقابة الإدارية.

يتعمق البحث في التحديات التي تواجهها الشركات عند محاولة تحقيق التوازن بين الأهداف المالية وأهداف الاستدامة، مشيرًا إلى النقص الواضح في الأبحاث التجريبية التي تتناول دوافع الشركات لاعتماد استراتيجيات استدامة متنوعة، وكيف يمكن للمديرين تنفيذ أنظمة رقابة إدارية تدعم هذه المبادرات بشكل فعّال. ومن خلال معالجة هذه الفجوات البحثية، يهدف المقال إلى تحفيز المزيد من الأبحاث حول تبني استراتيجيات الاستدامة، وتأثيرها على أداء الشركات، وتطوير أنظمة محاسبية قوية تدعم الاستدامة.

الواقع المصري لاستدامة الشركات : وما اصدرته البورصة المصرية في هذا الشأن ، بالإضافة الي دليل يرشد الشركات المقيدة ببورصة الاوراق المالية المصرية عن اهمية الافصاح عن اداء الاستدامة ، مع تحديد المسئولية والاشراف ، بالإضافة الى اعداد تقرير الافصاح عن الاستدامة ويوضح به دور مجلس الادارة ، واشراك اصحاب المصالح مع تحديد لموضوعات الافصاح ، وايضا تحديد الاحداث الجوهرية ، ومؤشرات قياس الاداء .

في نهاية المطاف، يؤكد المقال على ضرورة تطور مهنة المحاسبة لتتجاوز حدودها التقليدية، بحيث تشمل تقييم التأثيرات البيئية والاجتماعية. ويُعتبر هذا التحول في ممارسات المحاسبة أمرًا حيويًا ليس فقط للامتثال للضغوط الخارجية، بل أيضًا لتحقيق مزايا استراتيجية في سوق بات يتميز بندرة الموارد ووعي بيئي متزايد. وتشير النتائج إلى أن الشركات التي تتابع قضايا الاستدامة بشكل نشط وتديرها بفعالية تكون في وضع أفضل للحفاظ على شرعيتها وتعزيز قيمة مساهميها في ظل مشهد اقتصادي سريع التغير.

الكلمات المفتاحية : استدامة الشركات ، المحاسبة الادارية ، الواقع المصري .