# What Is Sustainability? A Review of the Concept and Its Applications

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**Abstract**

Whereas the concept of sustainability is broadly acknowledged as being multi-dimensional, its various dimensions have brought to light different discourses over time and have often been treated separately. In some cases, this separation has limited the actual implementation of sustainability to its mere rhetoric. By relying upon a review of the relevant literature which addresses the notion of sustainability (or of sustainable development), the present chapter aims to explore this notion by identifying its key dimensions and the intertwining relationships between them. In so doing, the challenges and opportunities brought out by an integrated approach towards sustainability are also emphasised, together with the role played by governance structures, business models, management, measurement and reporting systems in implementing 'integrated sustainability' within organizations. In this context, the contribution of integrated reporting is explored.

## 2.1 Introduction

In recent years, the growing concerns for environmental and climate change, together with issues of poverty, increasing disparity between societies and the tensions brought by social inequalities, have placed sustainable development under the spotlight. National and international institutions, policy makers and cross-country initiatives (see, for instance, the *Sustainable Development Solutions Network*—SDSN—of the United Nations launched in 2012), as well as practitioners (see, for instance, KPMG 2011) and academics (see, among others, Joseph 2012), have increased the attention given to social and environmental sustainability worldwide. As emphasised by Gray (2010), whereas everyone

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C. Busco et al. (eds.), *Integrated Reporting*, DOI 10.1007/978-3-319-02168-3_2,

seems to agree on the importance of sustainable development, its very nature and meaning is rarely discussed and analysed in an explicit way[1]. As a result, the actual implementation of sustainability risks to be limited by the vagueness and ubiquity of its definition (Dixon and Fallon 1989). For instance, due to the ubiquity of the notion of sustainability, different discourses have emerged over time, thereby associating this concept with social responsibility, environmental management, or business sustainability, which are often treated in separated ways. These different discourses have also revealed their appeal over corporations, whose role and responsibility for sustainable development have been questioned.

In response to the increasing pressures coming from national and international regulations, and from society in general, corporations are gradually pushed towards the adoption of principles of both social and environmental responsibility within their strategies, structures and management systems (Werbach 2009). In this context, a sort of 'sustainability rhetoric' is emerging in mission statements, internal codes and external reporting systems. As argued by Gond et al. (2012), in some cases, this rhetoric was used in the attempt to reconstruct the eroded legitimacy of companies and did not necessarily involve the actual implementation of (or participation in) sustainable development. Otherwise, such active implementation and participation would require organizations to alter their existing practices and to allow a concrete strategic move towards sustainability (Hopwood 2009).

In the attempt to move beyond the sustainability rhetoric and to pursue an actual search for sustainable development, a clear definition of this concept and of its key dimensions is needed, together with the adoption of an integrated approach towards the notion of sustainability. This need has been advocated by both academics (see Gray 2010) and cross-country initiatives (such as the *SDSN*) to overcome the limits resulting from the separation between social, environmental, and financial concerns, as well as from an individualistic approach to sustainability. In fact, sustainable development cannot be achieved through isolated initiatives, but rather requires an integrated effort at various levels, comprising social, environmental and financial aspects. As addressed by recent studies on the very nature of sustainability, "*any foreseeable sustainable state will be the result of interactions between organizations*, *individuals*, *societies and states*" (Gray 2010, p. 57). From this point of view, an integrated approach towards sustainability would require realising the potentials of its key (financial, social and environmental) dimensions simultaneously, as well as managing the tensions, trade-offs and synergies between these dimensions (we will define this approach as 'integrated sustainability'). More importantly, in managing the tensions of sustainability, a key role can be played by *ad hoc* governance structures, business models, management, measurement and reporting systems, which could be purposefully designed according to an integrated

[1] In line with Gray (2010), in this chapter we will use the expressions 'sustainability' and 'sustainable development' as two analogues. In so doing, we also acknowledge a slight difference between the two expressions, in which 'sustainability' refers to a state, while 'sustainable development' refers to the process for achieving this state (see Gray 2010).

approach. In this context, the recent debate on integrated reporting is likely to play a relevant role.

By relying on the previous premises, this chapter aims to explore the concept of sustainability by identifying its key dimensions and the intertwining relationships between them. The aim is to identify the challenges and opportunities arising from an integrated approach towards sustainability, and the role of this approach in enabling organizations to actually implement sustainability beyond its mere rhetoric. In so doing, particular attention will be given to the perspective of companies and to management systems, practices and processes which could help integrate social and environmental concerns with the more commercial and financial needs of the business. As we will see subsequently, whereas these (social, environmental and financial) dimensions are all part of a broader and integrated notion of sustainability, their co-existence implies tensions and challenges which need to be addressed and managed in an attempt to actually implement sustainability.

In order to achieve the goal described above, this chapter relies upon the analysis of the relevant literature which has addressed the concept of sustainability from the perspective of companies. By reconstructing the evolution of this debate over time (see Sect. 2.2), the evolving discourses on sustainability are drawn upon in Sect. 2.3 to identify the key dimensions of this concept and the need for an integrated approach. Next, in Sect. 2.4, the synergies and tensions between these dimensions are discussed to outline the challenges and opportunities resulting from integration. In this context, the potential roles of governance structures, business models, management, measurement and reporting systems in implementing sustainability are suggested in Sect. 2.5. In particular, the contribution of integrated reporting is explored. The main messages of this chapter are then summarised in Sect. 2.6[2].

## 2.2 Changing Discourses on Sustainability: Insights from the Literature

As emphasised by Kidd (1992), the concept of sustainability is not new, it has a rather long history and it has evolved over time. Importantly, this evolution has been affected by different "*intellectual and political streams of thought that have molded concepts of sustainability*" (Kidd 1992, p. 3). In this section we will rely upon the relevant literature which has addressed the concept of sustainability according to different streams of thoughts. The review of these studies permits the identification of three main discourses that have shaped and characterised the

[2] Although this chapter is the result of the joint efforts and collaboration of the two authors, Elena Giovannoni is the author of Sects. 2.1, 2.4, 2.5 and 2.6; Giacomo Fabietti is the author of Sects. 2.2 and 2.3. This chapter is based on the outcomes of a broader research project entitled "From governance and risk management rules to performance: roles, tools and enabling conditions in Italian firms". The authors gratefully acknowledge the financial support of this research project provided by national funding within PRIN 2009.

evolving debate on sustainability[3]. We will label these as 'environmental', 'social' and 'business' discourses.

### 2.2.1 The Environmental Discourse

One of the prevailing discourses regarding the concept of sustainability has referred this concept to the relationships between men and nature (we will label this discourse as the 'environmental discourse'). Although the multidimensionality of sustainability has never been neglected, over the past 30 years it has been often compartmentalized as an environmental issue (Drexhage and Murphy 2010). In particular, during the 1970s, the term sustainability began to be widely used in relation to environmental problems. As shown by Kidd (1992), a number of books addressing issues of sustainability from an environmental point of view were published during that period (see, e.g., Meadows et al. 1972). In this context, growing concern on global environmental problems, and scepticism about the possibility for reducing industrial pollution significantly, pushed the United Nations (UN) to address these problems as a "*barrier to development*" (Kidd 1992, p. 16).

One of the key steps in this direction was the UN Conference on Human Environment, which took place in Stockholm in 1972. The conference led to the development of 26 principles, most of which addressed environmental concerns; in particular, by relying on the concept of *carrying capacity* (see e.g. Riddell 1981; WRI/IIED 1986), the third principle stated that "*the capacity of the Earth to produce vital renewable resources must be maintained and, wherever practicable, restored or improved*" (UN 1972, p. 4). The Stockholm conference acted as a vehicle for the creation of the UN Environmental Programme (UNEP), as well as for the creation of a number of national environmental protection agencies. Within UNEP the term sustainability appeared for the first time in the context of the UN (Kidd 1992). Since its foundation, in 1972, one of the most important aims of UNEP was the promotion of cooperation and strong leadership in the care of the environment. In this context, UNEP also stressed the importance of *eco-development* (Sachs 1984), defined as the *yield* of renewable resources and the simultaneous monitoring of the depletion of non-renewables. UNEP retrieved the concept of *sustainable yield* (Tivy and O'Hare 1982) in its definition of eco-development.

In 1980, the International Union for Conservation of Nature (IUCN), World Wildlife Fund (WWF) and UNEP set up the World Conservation Strategy (WCS).

[3] Given the numerous theoretical streams which have approached the concept of sustainability from different perspectives, it would be impossible to provide a comprehensive review of the literature which has addressed this notion in only one chapter. More generally, as argued by Kidd (1992, p. 3) "*the literature relating to sustainability is so voluminous that full analysis were not practical. And if it were practical it would probably not be worth the effort*". Far from attempting to provide an exhaustive review, in this section we draw on some key studies which have addressed the concept of sustainability from different perspectives in order to outline some of the key discourses which have informed the debate regarding this concept.

The WCS referred to '*development that is sustainable*' in terms of both improvements in human life and conservation of natural resources. The primary aim of the WCS was to promote sustainable development through the identification of priority *conservation issues* (Drexhage and Murphy 2010). In this context, the term *conservation* stands for "*management of human use of the biosphere so that it may yield the greatest sustainable benefit to present generations while maintaining its potential to meet the needs and aspirations of future generations*" (IUCN, WWF and UNEP 1980, introduction). In 1987 the final report of the World Commission on Environment and Development (WCED), titled *Our Common Future*[4], provided an overview on the state of the environment, as well as the most popular definition of *Sustainable development*, as "*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*" (p. 45). The report of WCED represented the "*momentum for the landmark 1992 Rio Summit*" (Drexhage and Murphy 2010, p. 8). Importantly, the UN Conference on Environment and Development (UNCED) in 1992, referred to as the Rio Earth Summit, produced a global action plan for sustainable development. Its outputs were the *Rio Declaration*, *Agenda 21* and the *Commission on Sustainable Development*. Particularly, *Agenda 21* provided advice and good practices for the achievement of sustainable development, by posing major emphasis on environmental aspects (Drexhage and Murphy 2010). Nevertheless, during the subsequent Kyoto Conference on Climate change in 1997, the poor progress in the achievement of *Agenda 21 goals* emerged.

The debate described above was not ignored by corporations. As argued by Berry and Rondinelli (1998), in the 1960s and 1970s, corporations acted in a 'reactive' way when faced with environmental issues, waiting for environmental crises to occur and then trying to mitigate their evil effects. During the 1980s, given the growing regulation on environmental protection, in many cases corporations limited their efforts to the mere compliance with laws and requirements. In the 1990s corporations began to adopt a more 'proactive' approach, through which they started to try to anticipate the environmental effects of their operations and to obtain a business advantage from the management of environmental performance. Since then, corporations have gradually attempted to embed environmental issues into their business culture and management processes by introducing Environmental Management Systems (EMSs). According to Melnyk et al. (2003, p. 332) an EMS is "*a system and database which integrates procedures and processes for training of personnel, monitoring, summarizing, and reporting of specialized environmental performance information to internal and external stakeholders of a firm*". EMSs are conceived as important for complying with regulations and for waste reduction. Among these systems, the voluntary environmental management tool (labeled *Eco-Management and Audit Scheme* - EMAS), developed by the European Commission in 1993, embraced a broad range of indicators, including energy efficiency, material efficiency, biodiversity, emissions, water consumption and waste.

[4] This report is also known as the Brundtland Report.

As illustrated above, from the 1970s to the 1990s, sustainability has been primarily related to environmental concerns. In parallel, as we will see in the following sections, the social discourse was also emerging.

### 2.2.2 The Social Discourse

Whereas the environmental discourse was developing within the sustainable development debate, social aspects were not neglected. For example, the WCED's definition of Sustainable Development (WCED 1987) focuses on the reconciliation of the needs of present and future generations. According to Dempsey et al. (2011), the attention given to *inter-generational equity* by the WCED definition stresses social aspects, and particularly the key determinants of social equity, such as social justice, distributive justice and equality of conditions. In this context, exclusion from participation in the social, economic and political life of a community was considered to be at the core of the concept of social equity, since it could lead to racism and discrimination (e.g. Pierson 2002; Ratcliffe 2000).

In addition to this debate, the social discourse has also developed in the context of corporations and has been particularly associated with the notion of social responsibility. Already in 1953, Howard Bowen's *Social Responsibilities of the Businessman* defined the social responsibility of businessmen as "*the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society*" (p. 6). While Bowen's contribution represented a milestone in the debate on social responsibility, during the 1960s, definitions of Corporate Social Responsibility (CSR) began to spread: Davis (1960), for example, argued that CSR refers to "*businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest*" (p. 70). In so doing, he also suggested that some socially responsible business decisions could be justified by the long-run economic gains of the firm; Frederick (1960), instead, argued that "*social responsibility in the final analysis implies a public posture toward society's economic an human resources, as a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms*" (p. 60). During the 1980s and 1990s, alternative approaches to CSR were elaborated, such as stakeholder theory (Freeman 1984), corporate citizenship (Andriof and McIntosh 2001) and business ethics (Kilcullen and Ohles Kooistra 1999).

From a UN perspective, after the 1997 Kyoto Conference on Climate change, a key milestone for addressing social concerns was represented by the *Millennium Development Goals* (MDGs) established in 2000 for the period 2000–2015. The MDGs focused on a set of rights and needs encompassing themes such as poverty, health and discrimination. Subsequently, according to Drexhage and Murphy (2010), the following 2002 Johannesburg World Summit on Sustainable Development (WSSD) "*demonstrated a major shift in the perception of sustainable development—away from environmental issues toward social and economic*

*development*" (p. 8). By integrating MDGs with additional socio-economic aspects, WSSD "*did make a constructive change by focusing considerably more attention on development issues*" (Drexhage and Murphy 2010, p. 9).

Importantly, a 20-year follow-up to the 1992 Earth Summit took place in Rio de Janeiro in 2012 through the United Nations Conference on Sustainable Development (UNCSD). The Conference is also known as Rio+20 and was aimed at securing renewed political commitment for sustainable development, assessing the progress and implementation gaps in meeting previous commitments, and addressing new and emerging challenges. Within Rio +20 the UN agreed on the need for Sustainable Development Goals (SDGs) by emphasising the importance of both social and environmental concerns and the need for a more comprehensive definition of the role of business for sustainable development.

### 2.2.3 The Business Discourse

A third main discourse which has emerged within the debate on sustainability concerns the relationships between modern corporations and both social and environmental matters (we will label this discourse as the 'business discourse'). As argued by Gray (2010, p. 57), "*Capitalism and its destructive tendencies are manifest through its greatest creation—the corporation*". Given the depletion of natural resources that is caused through their activities, corporations are required to move towards a state in which they "*use only resources that are consumed at a rate below the natural reproduction, or at a rate below the development of substitutes. They do not cause emissions that accumulate in the environment at a rate beyond the capacity of the natural system to absorb and assimilate these emissions. Finally they do not engage in activity that degrades eco-system services*" (Dyllick and Hockerts 2002, p. 133). This situation encompasses not only *eco-efficiency* (WBCSD 2000) but also *eco-effectiveness* (Braungart and McDonough 1998) and *sufficiency* (Schumacher 1973).

Moreover, from a business perspective, sustainability has been referred to as the capability of a corporation to last in time, both in terms of profitability, productivity and financial performance, as well as in terms of managing environmental and social assets that compose its capitals. In one sentence, business sustainability is the *business of staying in business* (Doane and MacGillivray 2001). Dyllick and Hockerts (2002) define business sustainability as "*meeting the needs of a firm's direct and indirect stakeholders* [. . .] *without compromising its ability to meet the needs of future stakeholders as well*" (p. 131). In this respect, the business discourse on sustainability has also revealed an inherent paradox between corporations and sustainability (Gray 2010). On the one hand, given the power of corporations to exert control over society and to produce large scale innovations, they are increasingly regarded by governments as an unavoidable means through which (social and environmental) sustainability can be implemented (Hawken et al. 1999; Gray 2010). On the other hand, they are placed at the heart of concerns about the deterioration of natural resources and the production of social inequalities. This

(apparent) paradox requires further understanding regarding the relationships between social, environmental and business discourses.

## 2.3 Conceptualising the Key Dimensions of Sustainability: Towards an Integrated Approach

The literature reviewed in the previous section, as well as the three evolving (environmental, social and business) discourses make it possible to identify and conceptualise the key dimensions of the concept of sustainability, as well as to emphasise the need for an integrated approach among the three dimensions. This need has also been acknowledged by Drexhage and Murphy (2010): we need to take "*sustainable development out of the environment "box" and considering wider social, economic, and geopolitical agendas*" (p. 20). In other words "*sustainable development embodies integration, and understanding and acting on the complex interconnections that exist between the environment, economy, and society*" (p. 6).

The multidimensionality of sustainability has also been reiterated by Rio+20. In fact, the Rio+20 outcome document, *The Future We Want*, refers to three dimensions of sustainable development: economic, social and environmental. It also refers to good governance as the basis for sustainable development. This idea is embraced by SDSN, which refers to four dimensions: economic development (including the end of extreme poverty), social inclusion, environmental sustainability, and good governance (including peace and security). Also SDSN stresses the need for an integrated approach to sustainability: this is clearly expressed by the document entitled *An Action Agenda for Sustainable Development* (SDSN 2013), according to which "*the challenges addressed by the proposed SDGs are inherently integrated*" (p. x).

The initiatives and documents mentioned above have highlighted the need for an integrated approach towards sustainability at a systems level. This need has also been emphasized at the level of the corporation. For instance, in providing guidelines to companies for sustainability reporting, the Global Reporting Initiative (GRI) has highlighted various dimensions of sustainability (i.e. economic, social and environmental dimensions) to be included and disclosed within reporting activities. In this respect, sustainability reporting should provide reliable information on the progress towards sustainability in all its different dimensions. The idea of sustainability as a multidimensional concept emerges clearly from GRI's *G4 Sustainability Reporting Guidelines—Reporting Principles and Standard Disclosure* (2013), which highlights that "*a sustainability report conveys disclosures on an organization's impacts—be they positive or negative—on the environment, society and the economy*" (p. 3). The multidimensional nature of sustainability reporting and the need for integration have also been emphasized by the International Integrated Reporting Council (IIRC). According to the *Consultation Draft of The International IR Framework* of 2013 (CD), integrated reporting "*is a process that results in communication by an organization, most visibly a periodic integrated report, about value creation over time*" (p. 8); furthermore, the integrated report is

defined as "*a concise communication about how an organization's strategy*, *governance*, *performance and prospects*, *in the context of its external environment*, *lead to the creation of value over the short*, *medium and long term*" (p. 8). The CD points out that the integrated report aims to "*enhance accountability and stewardship with respect to the broad base of capitals* (*financial*, *manufactured*, *intellectual*, *human*, *social and relationship*, *and natural*) *and promote understanding of the interdependencies between them*" (p. 8). In this way, the CD stresses not only the need to preserve the various capitals, but also hints at the aim of integration. In fact, as emphasized within the CD, the integrated report supports "*integrated thinking*, *decision-making and actions that focus on the creation of value over the short*, *medium and long term*" (p. 8).

By relying upon the initiatives and documents mentioned above, as well as upon the analysis of the main discourses which have informed the debate on sustainability, next we will refer to the concept of integrated sustainability at the company level. This approach towards sustainability requires that organizations address all main dimensions of sustainability simultaneously. In simple terms, these dimensions include: the *Financial* dimension, in terms of ensuring long term economic and financial performance; the *Social* dimension, by creating value for the society; the *Environmental* dimension, through a responsible management and re-construction of natural resources. As we will see in the following section, integrated sustainability implies the effective management of the inherent tensions between these different dimensions.

## 2.4 The Challenges of Integrated Sustainability

Whereas the need for an integrated approach towards sustainability has been recently advocated by academics, institutions and cross country initiatives, the implications and challenges involved in implementing this integration have received little attention. As argued by Gray (2010, p. 53), "Sustainability is not only a complex and elusive notion, but one which is fraught with potential contradictions". Some of these 'potential contradictions' stem from the tensions between the different dimensions of sustainability, which may occur when attempting to implement all dimensions simultaneously, according to an integrated approach.

For example, if we consider the financial and social dimensions of sustainability from the company perspective, whereas some studies have demonstrated that addressing social performance is good for financial performance, other studies highlight that conflicts between the two dimensions do exist in numerous circumstances (see Boyd et al. 2009; Orlitzky et al. 2003). These mixed results offered by the literature can be explained in light of the tensions between the social and financial dimensions of company performance. Social performance requires freedom and flexibility from financial constraints and business logics, in order to find solutions to social problems. Whereas the pursuit of social performance should aim at creating value primarily for society as a whole rather than for the individual

company, the search for financial performance works in the opposite way (Pache and Santos 2011). Tensions between social and financial performance are also related to various institutional pressures and stakeholders that converge within corporations, in which customers, employees, suppliers, beneficiaries, partners, and investors address multiple social or financial needs (Coda 1988). These tensions increase during scale-up processes, when social performance has to be considered while taking into account the financial needs of a larger number of stakeholders.

Similarly, if we consider the environmental and financial dimensions of sustainability from the company perspective, several studies have argued that effective environmental management may lead to increased production efficiency, cost reduction and improved market reputation with benefits for financial performance (see Molina-Azorín et al. 2009; Ambec and Lanoie 2008; Miles and Covin 2000). Simultaneously, the search for environmental performance may imply high costs of compliance (Jaffe et al. 1995), huge investments for re-constructing the consumed resources and may limit opportunities for growth and for competitive improvement, at the detriment of financial performance (see, for example, Hull and Rothenberg 2008). Also, on a large scale, financial performance and commercial needs may imply the use of technologies for increasing resource consumption, to the detriment of environmental performance.

Finally, the social and environmental dimensions of sustainability may also reveal inherent tensions. For instance, a new solution for a more effective management of environmental resources may conflict with social needs. In contrast, new solutions to social problems may conflict with the need to preserve natural resources. In this context, Gray (2010) draws on Dresner (2002) to suggest the existence of a 'sustainability continuum' between strong and weak sustainability. On one hand, weak sustainability relies upon the idea that human-made resources can compensate for the consumption of natural resources. On the other end of the continuum, very strong sustainability suggests that human life is incompatible with sustainability. Within this continuum, organizations are likely to play a role in contributing to weak sustainability to the extent in which they search for solutions to compensate for the consumption of natural resources.

Far from constituting paradoxes which need to be solved, the relationships between social, financial and environmental dimensions (highlighted above) represent tensions which need to be adequately managed when implementing integrated sustainability. The management of these tensions does not necessarily mean achieving a stable proportion between all dimensions, but rather addressing all (financial, environmental and social) dimensions simultaneously and through an integrated approach. In so doing, the management of tensions becomes crucial for avoiding the drift in favour of one single dimension to the detriment of the others and to fully realize the potentials of all dimensions at the same time. As we will argue next, in implementing integrated sustainability within organizations, a key role should be played by governance systems, business models, as well as management, measurement and reporting systems. All these systems need to be adequately designed and practiced within organizations according to an integrated approach.

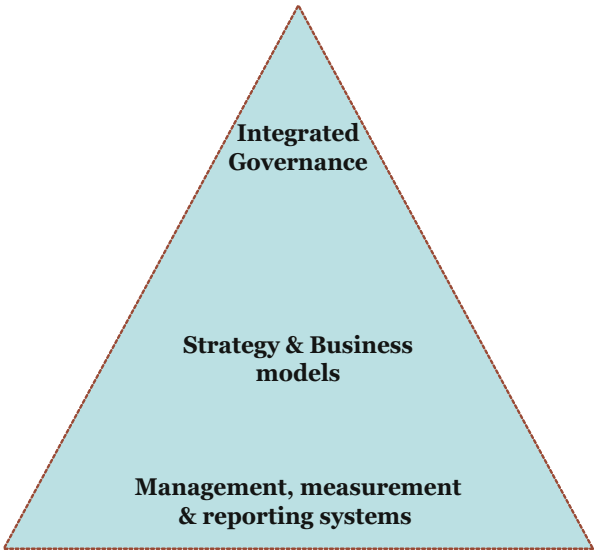


**Fig. 2.1** Implementing integrated sustainability: key levels

## 2.5 Implementing Integrated Sustainability Beyond Rhetoric: From Governance to Integrated Reporting Systems

In this section, we suggest that the actual implementation of integrated sustainability should take place at different organizational levels, ranging from the level of corporate governance to the strategic and business model level, while also including the level of management, measurement and reporting (see Fig. 2.1). At these various levels, structures, processes and systems should be designed and practiced according to an integrated approach. Far from providing an extensive analysis of the levels mentioned above, in this section we build on some recent, key studies which have addressed governance issues, business models, management and measurement systems according to an integrated and multidimensional approach. The aim is to suggest how these studies could be extended to include broader issues of sustainability from an integrated perspective.

### 2.5.1 Implementing Integrated Governance: Compliance, Integrated Sustainability, Risk and Knowledge Management

Within the debate on sustainability, governance issues have acquired increasing relevance. For example, the holistic framework on sustainability proposed by the Rio+20 outcome document considers good governance as a key element for sustainable development. This view is embraced by the SDSN, that includes good governance among the key dimensions of sustainability.

The need to align governance systems to sustainability is also acknowledged at the company level (Cartwright and Craig 2006). Following recent corporate

scandals and episodes of managerial misconduct, the corporate governance debate has pointed to certain corporations whose ways of doing business have been too profit-oriented and overly focused on the financial aspects of organisational performance (see Abdel-khalik 2002; Benston and Hartgraves 2002). In particular, it has been broadly acknowledged that creating value only for shareholders is not enough (see, among others, Charreaux and Desbrières 2001; Catturi 2007; Coda 1988). Rather, value creation is an integrated process that is rooted around a broad perspective of governance, encompassing the interest of multiple stakeholders. In the attempt to ensure effective accountability towards different stakeholders, national and international regulations have largely proliferated. Simultaneously, following the increasing attention given to compliance issues within the corporate governance debate, some studies have emphasised that, in order to implement effective governance, compliance is not enough. In this context, a broader perspective on governance is suggested; one that combines compliance with the achievement of financial and non-financial objectives, ethical behaviour, environmental concerns, and risk awareness (see Seal 2006; Bhimani and Soonawalla 2005; Fahy et al. 2004). Such a broadened perspective also suggests going beyond formal structures of governance to consider the actual processes and mechanisms through which governance principles and practices are operationalised (Mouritsen and Thrane 2006).

Within this debate, recent studies have suggested an integrated approach to governance (labelled as 'integrated governance'); one which encompasses four main dimensions, namely, compliance, performance, risk and knowledge (see Busco et al. 2005). From this point of view, integrated governance includes: compliance to rules and regulations; the achievement of the company's performance; effective risk management; and knowledge management. These dimensions are strongly related to each other and, as such, should be sought out and managed simultaneously. For example, actual compliance to laws, rules and recommendations requires effective knowledge management, which implies the management of skills, competencies, cultural and ethical underpinnings of the individuals that comprise the organization. Furthermore, whereas the achievement of the company's performance should take place within the boundaries provided by compliance issues, within the integrated governance system these boundaries should enable rather than constrain value creation processes. Finally, risk management should be based on both compliance to recommendations (see, for instance, COSO 2004), as well as on effective knowledge management in order to actually support value creation and the strategic management of company performance. Although it is within the compliance-driven corporate governance debate that risk management has acquired growing relevance, regulatory power and legitimacy (Mikes 2008), risk management should also be considered as a system for strategizing and performance management (Collier and Berry 2002; Collier et al. 2004). Therefore, a key role is played not only by formal prescriptions and frameworks for risk management, but also by the relationships between risk management (compliance) and the effective knowledge management of the different groups of experts (accountants, risk managers, internal auditors, directors, top

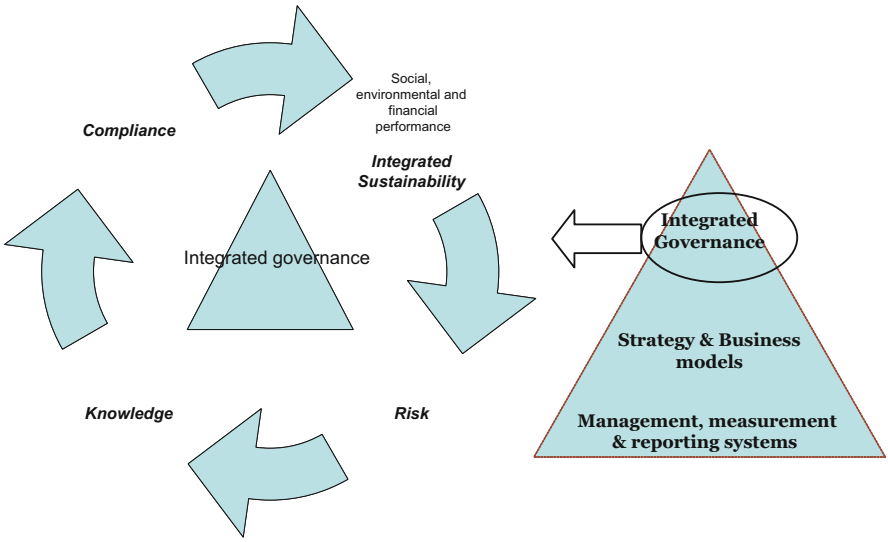


**Fig. 2.2** Integrated governance [*source*: adapted from Busco et al. (2005)]

managers, etc.) that comprise the various parts of the organization and of its governance systems.

The integrated approach to governance described above (and proposed by Busco et al. 2005) is meant to assist the actual implementation of governance beyond simple issues of compliance and beyond the mere search for external legitimization and consensus, which have catalysed the recent debate on corporate governance. In the attempt to align this approach with the concept of integrated sustainability, the dimensions of integrated governance could be further developed to include social, environmental and financial dimensions of sustainability (see Fig. 2.2). In so doing, integrated governance would result from the simultaneous search for:

- compliance to national and international rules, regulations and recommendations;
- integrated sustainability, which combines social, environmental and financial performance dimensions;
- risk management, broadened through a holistic approach to include both quantifiable and non-quantifiable risks, providing managers with a more strategic perspective, and improving accountability towards all stakeholders within the strategic decision-making process;
- knowledge management, which should provide the subtle links for combining all of the previous dimensions by embracing the development of the skills, competencies, cultural and ethical underpinnings needed to ensure integration.

### 2.5.2 (Hybrid) Business Models for Integrated Sustainability

In addition to an integrated approach to the governance system, the implementation of integrated sustainability requires the definition of *ad hoc* strategies and business models that should capture social, environmental and financial dimensions, as well as their intertwining relationships.

Although new strategies have been recently emerging from the adoption of the founding principles of sustainable development from corporations, in the resulting business models charity and social programs have often been merely added to for-profit models. In this context, sustainability and business performance are managed separately and represent the objects of two distinct strategies carried out by an organization. The separation between sustainability and business strategies can undermine the actual implementation of sustainability, relegating it to ineffective solutions or to the mere 'sustainability rhetoric' in the search for legitimization. This situation calls for the definition and implementation of new, more effective business models, in which to ensure an integrated strategic move towards sustainability beyond its mere rhetoric.

In general, a business model should capture the internal and external patterns of interactions that shape a company's value chain, value proposition and value system. Given the tensions between the business needs of corporations and the social and environmental dimensions of sustainability highlighted in the previous sections, the definition and implementation of sustainable business models is a challenging process. Despite these challenges, new business models have emerged as forms of 'hybrid organizations' (or 'hybrid business models'), in which social (and/or environmental) and commercial performance are sought after simultaneously through a single, unified strategy (Battilana et al. 2012; see also Battilana and Dorado 2010—see Fig. 2.3)[5]. According to recent studies, hybrid business models are experiencing a rapid growth in a number of sectors (Porter and Kramer 2011; Battilana et al. 2012). Many hybrid organizations originated as forms of social entrepreneurship and, then they turned into hybrids by searching for autonomy from donations and subsidies, as well as by attempting to scale up in order to reach a larger market. More recently, hybrid business models are growing in new (and for-profit) sectors, such as consulting, retail, consumer products and IT (information technology). Hybrid organizations are also emerging among high tech R&D firms, as a result of the joint efforts and collaboration between industry and academia (Lamb and Davidson 2004).

As is similar to any hybrid species, hybrid business models face both the challenges and opportunities that come from the integration of diverse elements within the same strategy (Phills et al. 2008). On one hand, this diversity is interpreted as a unique source of innovation. With an approach that is different from pure social or pure commercial models, in hybrid organizations managers do

[5] In general, hybrids have been defined as new phenomena (practices, tools, organizations, etc.) produced out of two or more elements that are normally found separately (Miller et al. 2008).

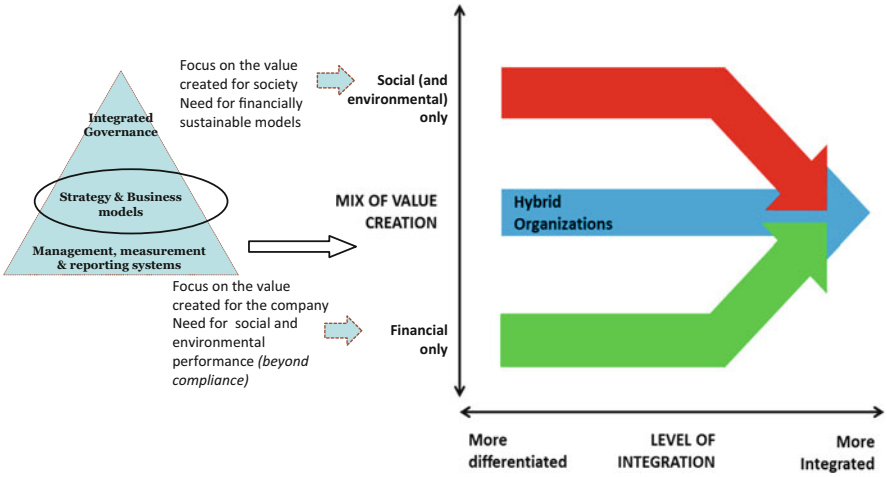


**Fig. 2.3** Hybrid business models [*source*: adapted from Battilana et al. (2012)]

not have to choose between social (or environmental) and financial/commercial performance. The co-existence of different performance dimensions may allow a virtuous cycle of long term financial results and reinvestment in the social mission (Battilana et al. 2012). On the other hand, this co-existence can create tensions which may challenge the very nature of hybrids by causing a mission drift towards one dimension to the detriment of the other and of the hybrid nature itself. As argued by Battilana et al. (2012, p. 51), "Hybrid must also strike a delicate balance between social and economic objectives, to avoid 'mission drift'—in this case, a focus on profits to the detriment of social good". As a result, hybrid business models are said to be characterized by an ubiquitous and unstable nature (Miller et al. 2008), which does not allow one-off solutions to take place but rather requires the continuous search for the 'hybrid ideal'. According to Battilana et al. (2012, p. 51), "When organizations combine social mission with commercial activities, they create unfamiliar combinations of activities for which a supportive ecosystem may not yet exist".

Whereas hybrid business models may address some of the challenges of integrated sustainability, still the management of tensions between the different dimensions of sustainability, which co-exist within the hybrid, is a critical process. Similarly, as emphasized in the previous subsection, the relationships between the different dimensions of integrated governance requires *ad hoc* management systems. As we will see later, to support an integrated approach to sustainability, governance systems and business models need to be assisted by adequate management, measurement and reporting systems.

### 2.5.3 The Role of Integrated Management, Measurement and Reporting Systems

The role of management and measurement systems in addressing different (social, environmental and financial) performance dimensions have been the object of numerous studies that have, nevertheless, provided mixed results. Some studies have emphasised that traditional management control systems are limited in the pursuit of social or environmental performance because they focus managers' attention on financial concerns (Gond et al. 2012). Other studies have highlighted that, if designed to include social and environmental matters, management control systems can help to address social and environmental performance (Henri and Journeault 2010; Gond et al. 2012). The reasons for such mixed results can be related to the fact that these studies have mainly concentrated on isolated and fragmented elements or systems, without considering the broader spectrum of management controls, which can be involved in the management of different dimensions of sustainability.

The need for overcoming the fragmentation highlighted above has been advocated also in the recent debate on integrated reporting. The *CD* calls for an 'integrated thinking' to overcome the traditional 'silo thinking' within the performance measurement and reporting system, as well as in managing the overall value creation process. According to the *CD*, such integrated thinking should encompass all ranges of factors (from the firm's capitals, to governance structures, business models, as well as performance drivers and outcomes) which take part in the value creation process, as well as the interactions between them. From this point of view, integrated thinking should be a guiding logic of the (integrated) reporting system.

The logic of integrated thinking described in the *CD* displays potentials for providing integrated reporting with a key role in implementing integrated sustainability beyond compliance. In fact, integrated thinking does not imply the mere sum or systematization of financial, social and environmental reporting systems. Nor does it require adding an isolated measurement system for integrated reporting. Rather, the adoption of integrated reporting should provide an opportunity for a broader re-thinking of all pre-existing systems by suggesting how to overcome the isolation between them for the purpose of implementing and practicing integrated sustainability beyond compliance. Therefore, rather than representing an isolated element disconnected from the other management and measurement systems, and responding mainly to compliance and legitimizing needs, the integrated report should be aligned with other measurement systems (such as the business plan, the balanced scorecard, the budgeting system, the quality and production efficiency management systems, etc.) and should be conceived of as an active and constructive element within the process of planning, enacting, monitoring and communicating integrated sustainability on an ongoing basis and throughout all organizational levels (see Fig. 2.4).

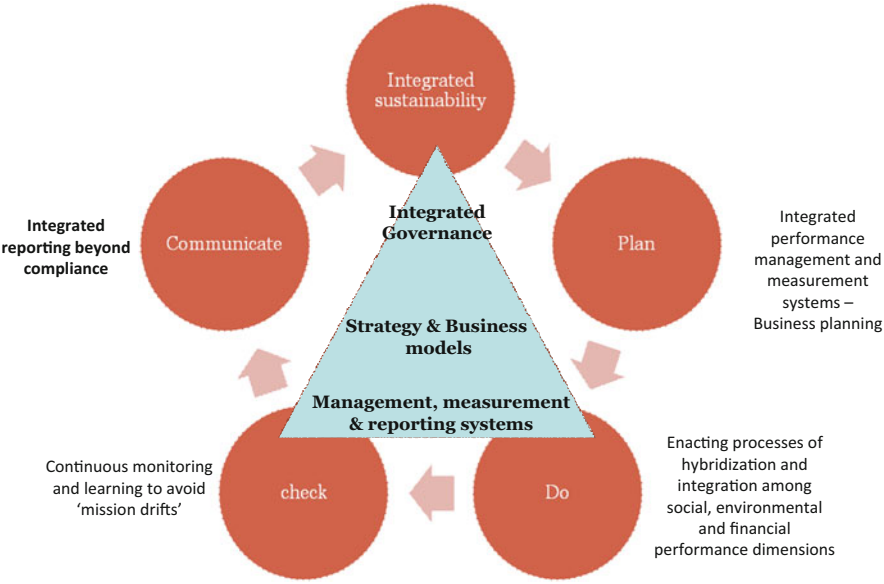


**Fig. 2.4** Implementing integrated sustainability: which role for integrated reporting?

## Summary and Conclusions

In this chapter we have highlighted the practical implications of exploring the key dimensions of sustainability, as well as their interconnections, going beyond the sustainability rhetoric. By relying upon the evolving debate regarding sustainability, and upon the different discourses which have informed this debate, we have emphasised the multidimensional and integrated nature of sustainability, as well as the tensions between its different dimensions. Rather than eliminating tensions, effective integration requires a full realisation of the potentials of all dimensions simultaneously. This process is challenging and, if we take the perspective of organizations, it should happen at various organizational levels. In this context, we have built on various studies that have explored governance, business models and performance management, measurement and reporting systems through integrated approaches, in order to highlight the opportunities that these approaches offer for incorporating the different dimensions of sustainability, and for understanding their management process. In so doing, rather than offering prescriptive solutions, we have outlined the following key elements and levels which we believe should be taken into account in the implementation of integrated sustainability:

– the integrated governance system, whose actual implementation requires the effective management of compliance; financial, social and environmental performance; risk management; and knowledge management;

– the definition of adequate (hybrid) business models, which are required to address social, financial and environmental performance dimensions simultaneously;
– integrated management, measurement and reporting systems, which may allow an integrated approach to sustainability through planning, execution, monitoring and communication.

Importantly, by drawing upon the elements mentioned above, our analysis highlights the potential role played by integrated reporting in the implementation of integrated sustainability. Given the driving principles and content elements for integrated reporting provided by the CD, we argue that, if adequately designed and implemented, integrated reporting can play an active and constructive role in managing sustainability beyond compliance. Therefore, integrated reporting should be conceived beyond mere issues of compliance and legitimization and should be framed within a broader approach. This approach requires that companies actually alter their existing practices beyond mere rhetoric and allow a concrete strategic move towards sustainable development.

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http://www.springer.com/978-3-319-02167-6

Integrated Reporting
Concepts and Cases that Redefine Corporate Accountability
Busco, C.; Frigo, M.L.; Riccaboni, A.; Quattrone, P. (Eds.)
2013, XIV, 350 p. 55 illus., 45 illus. in color., Hardcover
ISBN: 978-3-319-02167-6