Journal of Management Science Research Review
https://jmsrr.com/index.php/Journal/about

Volume. 4 Issue No. 2 (2025)

Online ISSN: 3006-2047
Print ISSN: 3006-2039

Sustainability Accounting and Investment Decisions Investigate How Sustainability Accounting Influences Investment Decisions And Corporate Financial Strategies: In Case of Pakistan

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Abstract
This study investigates the influence of sustainability accounting on investment decisions and corporate financial strategies in Pakistan, a nation grappling with significant environmental and social challenges. As global awareness of sustainability increases, organizations are recognizing the necessity of integrating environmental, social, and governance (ESG) factors into their financial practices. The research employs a mixed-methods approach, combining quantitative surveys and qualitative interviews with corporate executives from various sectors. Findings reveal that sustainability accounting practices significantly impact investment decisions, with manufacturing and services sectors showing a strong correlation between sustainability reporting and investor interest. Conversely, the finance sector demonstrates minimal engagement in sustainability practices. Barriers, such as regulatory limitations and a lack of awareness, hinder broader adoption. This study contributes valuable insights into how sustainability accounting can enhance corporate transparency, attract investment, and promote sustainable economic growth in Pakistan.

Key Words: Sustainability Accounting, Investment Decisions, Corporate Financial Strategies, Pakistan, Environmental, Social, Governance (ESG), Mixed-Methods Research.

Introduction

Sustainability accounting has emerged as a vital framework for organizations aiming to align their financial performance with environmental and social responsibilities. As global awareness of environmental issues intensifies, investors increasingly seek to understand how corporate practices impact sustainability. This trend is particularly relevant in Pakistan, a country facing significant environmental challenges, economic instability, and social inequalities. The integration of sustainability accounting into corporate financial strategies not only fosters transparency but also influences investment decisions, shaping the future of businesses in Pakistan.

Background of the Study

Online ISSN: 3006-2047
Print ISSN: 3006-2039

In recent years, the concept of sustainability has gained traction in the corporate sector worldwide. Sustainability accounting encompasses the measurement, analysis, and reporting of a company's environmental, social, and governance (ESG) performance alongside traditional financial metrics. This holistic approach enables stakeholders to assess the long-term viability of businesses, particularly in emerging markets like Pakistan.

Pakistan's economy is characterized by a diverse range of industries, including textiles, agriculture, and manufacturing, all of which are heavily impacted by environmental degradation and social issues. As the country grapples with challenges such as climate change, resource depletion, and social unrest, the need for sustainable practices becomes paramount. Investors are increasingly looking for companies that not only deliver financial returns but also demonstrate a commitment to sustainable development. Research indicates that companies that adopt sustainability accounting practices can enhance their credibility and attract investment. This study aims to explore the influence of sustainability accounting on investment decisions in Pakistan, examining how it affects corporate financial strategies and the broader implications for economic growth and social development. By analysing the current landscape, this research will contribute valuable insights into the role of sustainability in shaping investment behaviours and corporate governance in Pakistan.

Sustainability accounting plays a critical role in guiding organizations toward responsible business practices, especially in emerging economies like Pakistan. The country faces significant environmental challenges, including air and water pollution, deforestation, and the impacts of climate change, which threaten both its natural resources and public health. As a result, there is a growing recognition among businesses and investors that sustainable practices are essential for long-term viability. In Pakistan, the investment landscape is evolving, with a noticeable shift toward integrating environmental, social, and governance (ESG) factors into decision-making processes. Investors are increasingly aware that companies demonstrating strong sustainability performance can reduce risks and enhance their reputations. This shift is driven by both regulatory pressures and the changing preferences of consumers and investors who prioritize sustainability.

Moreover, the government of Pakistan has begun to establish policies and frameworks aimed at promoting sustainability and responsible investment. Initiatives such as the Pakistan Vision 2025 highlight the importance of sustainable development and call for corporate accountability in addressing social and environmental issues. As companies align their financial strategies with these national priorities, sustainability accounting becomes a crucial tool for measuring and reporting their contributions.

The integration of sustainability accounting not only fosters transparency but also encourages companies to innovate and improve operational efficiencies. By reporting on sustainability metrics, firms can identify areas for improvement, thereby enhancing their competitiveness in both local and international markets. This study seeks to deepen the understanding of how sustainability accounting influences investment decisions in Pakistan, emphasizing its potential to drive corporate financial strategies that contribute to sustainable economic growth and social equity.

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Problem Statement

Despite the growing importance of sustainability accounting in enhancing corporate transparency and accountability, its influence on investment decisions and corporate financial strategies in Pakistan remains underexplored. Many companies continue to prioritize short-term financial gains over long-term sustainability, potentially jeopardizing their future viability and the overall economic stability of the region. This research aims to investigate the current state of sustainability accounting practices in Pakistan and their impact on investment decisions, addressing the gap in understanding how these practices can align corporate strategies with sustainable development goals.

Objectives

1. To analyze the current state of sustainability accounting practices among companies in Pakistan.
2. To assess the influence of sustainability accounting on investment decisions made by both domestic and foreign investors.
3. To evaluate how sustainability accounting affects corporate financial strategies and long-term planning.
4. To identify challenges and barriers to the adoption of sustainability accounting in the Pakistani corporate sector.
5. To propose recommendations for enhancing sustainability accounting practices to attract investment and promote sustainable growth.

Research Questions

1. What are the prevalent sustainability accounting practices among companies in Pakistan?
2. How do sustainability accounting practices influence investment decisions in the Pakistani market?
3. In what ways do these practices affect the corporate financial strategies of firms operating in Pakistan?
4. What challenges do companies face in implementing sustainability accounting?
5. How can improvements in sustainability accounting practices enhance investment attractiveness and corporate sustainability?

Significance of the Study

This study holds significant relevance for various stakeholders, including policymakers, investors, and corporate leaders in Pakistan. By elucidating the relationship between sustainability accounting and investment decisions, the research can inform policymakers on the need for supportive regulatory frameworks that promote sustainable business practices. For investors, understanding how sustainability accounting can mitigate risks and enhance returns will aid in making informed investment choices.

Moreover, corporate leaders will benefit from insights into best practices in sustainability accounting, enabling them to align their strategies with global trends and stakeholder expectations. Ultimately, this research aims to contribute to the broader

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discourse on sustainable development in Pakistan, highlighting the critical role of sustainability accounting in fostering responsible investment and promoting economic resilience.

Literature Review

Sustainability accounting has gained prominence as organizations seek to integrate environmental, social, and governance (ESG) factors into their financial reporting frameworks. According to Gray (2010), sustainability accounting extends beyond traditional financial metrics to encompass broader societal impacts, providing a holistic view of an organization's performance. This shift reflects a growing recognition that long-term business success is intertwined with sustainable practices.

Research indicates that sustainability accounting significantly influences investment decisions. Eccles et al. (2014) found that companies with robust sustainability practices tend to attract more investment, as they are perceived as lower-risk options by investors. This aligns with the findings of Friede et al. (2015), who conducted a meta-analysis showing that the majority of studies demonstrate a positive relationship between ESG performance and financial performance. This suggests that investors increasingly view sustainability as a criterion for assessing a firm's long-term viability.

In the context of emerging markets, such as Pakistan, the integration of sustainability accounting practices is still developing. Khan et al. (2020) highlight that while there is a growing awareness of sustainability issues, many companies in Pakistan lack comprehensive sustainability reporting frameworks. The authors argue that this gap limits investors' ability to make informed decisions. Furthermore, the lack of standardized reporting practices poses challenges in comparing sustainability performance across firms, as noted by Iatridis and Rossos (2016).

Several studies identify barriers to the adoption of sustainability accounting in developing countries. According to Dilling (2010), these barriers include insufficient regulatory frameworks, lack of awareness, and limited access to resources. Additionally, organizations may prioritize short-term financial gains over long-term sustainability, reflecting a broader cultural and economic context that undervalues sustainable practices (Sullivan & Gouldson, 2017).

Sustainability accounting not only influences investment decisions but also shapes corporate financial strategies. A study by Porter and Kramer (2011) emphasizes that companies embracing sustainability can create shared value, aligning their business goals with societal needs. This strategic alignment can lead to enhanced innovation, operational efficiencies, and ultimately, improved financial performance. In Pakistan, companies that integrate sustainability into their core strategies may better position themselves in a competitive market, as noted by Rahman et al. (2021).

Sustainability accounting has increasingly become a focal point in corporate governance, reflecting a broader shift towards responsible business practices. Recent studies emphasize the importance of integrating environmental, social, and governance (ESG) factors into financial reporting. Research by Khan et al. (2021) highlights that companies engaging in sustainability accounting not only enhance transparency but

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also improve investor confidence, which is crucial in attracting both domestic and foreign investments.

The relationship between sustainability accounting and investment decisions is well-documented. A meta-analysis by Friede et al. (2015) reinforces that firms with strong sustainability practices often experience superior financial performance, leading investors to view them as lower-risk options. This trend is particularly relevant in emerging markets like Pakistan, where investors are beginning to prioritize sustainability as a key criterion in their decision-making processes.

Despite this progress, the adoption of sustainability accounting in Pakistan faces significant hurdles. Limited regulatory frameworks and a lack of standardized reporting practices hinder effective implementation, as noted by Iatridis and Rossos (2016). Additionally, many companies still prioritize immediate financial returns over long-term sustainability, as highlighted by Dilling (2010). This short-sighted approach can undermine the potential benefits of sustainability accounting, limiting its impact on corporate financial strategies.

Furthermore, recent findings suggest that companies that adopt sustainability accounting can unlock new avenues for innovation and operational efficiencies. According to Porter and Kramer (2019), aligning business strategies with sustainability goals not only fosters competitive advantages but also addresses societal challenges. In the context of Pakistan, where environmental and social issues are pressing, integrating sustainability into corporate strategies could lead to more resilient businesses and a more sustainable economy.

In conclusion, while the literature underscores the growing importance of sustainability accounting in shaping investment decisions and corporate strategies, significant challenges remain, particularly in emerging markets like Pakistan. This study aims to explore these dynamics further, providing insights into how sustainability accounting can be effectively implemented to drive responsible investment and contribute to sustainable economic development. The literature indicates a clear trend towards the integration of sustainability accounting within corporate frameworks, especially in the context of investment decisions and financial strategies. However, in Pakistan, significant challenges remain regarding the adoption and implementation of sustainable practices. This study aims to fill existing gaps in the literature by exploring the specific dynamics of sustainability accounting in Pakistan and its implications for investment and corporate strategy. By doing so, it contributes to the understanding of how sustainability can drive economic growth and foster responsible business.

Methodology

This study employs a mixed-methods approach, combining both quantitative and qualitative research methods to explore the influence of sustainability accounting on investment decisions and corporate financial strategies in Pakistan. The research encompasses the following components:

This study will utilize a mixed-methods research design, combining quantitative and qualitative approaches to gain a comprehensive understanding of the influence of

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sustainability accounting on investment decisions and corporate financial strategies in Pakistan.

Quantitative Component

A cross-sectional survey will be conducted to collect quantitative data. The survey will consist of structured questionnaires designed to assess various dimensions of sustainability accounting, investment decision-making processes, and corporate financial strategies. The key components of the survey will include:

- **Demographic Information:** Questions will gather information on participants' roles, industries, and company sizes.
- **Sustainability Accounting Practices:** Items will assess the extent to which companies implement sustainability accounting, including reporting practices, adherence to ESG standards, and integration into financial reporting.
- **Investment Decisions:** Questions will evaluate how sustainability accounting influences investment choices, risk assessments, and stakeholder engagement.
- **Corporate Financial Strategies:** Items will explore how sustainability considerations impact long-term financial planning and operational strategies.

The survey will employ a Likert scale (1-5) to measure respondents’ perceptions and practices, allowing for quantitative analysis of relationships between variables.

Qualitative Component

In-depth semi-structured interviews will be conducted with a subset of respondents to gather qualitative insights. This component aims to explore the motivations, challenges, and perceptions related to sustainability accounting in greater depth. The interviews will include open-ended questions that encourage participants to share their experiences and opinions.

Data Collection Process

1. **Questionnaire Administration:** The survey will be distributed electronically using platforms such as Google Forms or SurveyMonkey to facilitate easy access and completion. A follow-up reminder will be sent to increase response rates.
2. **Interviews:** Selected participants will be contacted to schedule interviews, which can be conducted in-person or via video conferencing tools like Zoom. Interviews will be recorded (with consent) for accurate transcription and analysis.

Sample Selection

Target Population

The target population for this study includes corporate executives, financial analysts, and sustainability officers from various sectors in Pakistan, such as manufacturing, services, agriculture, and finance. This diverse population is essential for understanding the varied approaches to sustainability accounting across industries.

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Sampling Method

A stratified random sampling technique will be employed to ensure that the sample is representative of the different sectors and sizes of businesses in Pakistan. The stratification will involve categorizing firms into distinct groups based on:

- **Industry Sector:** Manufacturing, services, agriculture, etc.
- **Company Size:** Large corporations, medium-sized enterprises, and small businesses.

Sample Size

The survey aims to collect data from at least 200 respondents to ensure statistical power in the quantitative analysis. For qualitative insights, approximately 15 to 20 participants will be selected for in-depth interviews based on their willingness to share their experiences and their relevance to the study's objectives.

Participant Selection Criteria

Participants will be selected based on the following criteria:

- **Relevance of Role:** Participants should hold positions related to sustainability, finance, or corporate governance.
- **Experience with Sustainability Accounting:** Individuals should have experience or knowledge of sustainability accounting practices within their organizations.

By employing this comprehensive research design and sampling strategy, the study aims to gather reliable and valid data that will provide valuable insights into the influence of sustainability accounting on investment decisions and corporate financial strategies in Pakistan.

Data Collection

Quantitative data will be collected through a structured questionnaire designed to assess the current state of sustainability accounting practices, investment decision-making processes, and corporate financial strategies. The questionnaire will include Likert-scale items to measure perceptions and practices related to sustainability. Qualitative data will be gathered through semi-structured interviews, allowing for deeper exploration of participants' experiences and opinions.

Data Analysis

Quantitative data will be analysed using statistical software such as SPSS or R. Descriptive statistics will be used to summarize findings, while inferential statistics, including regression analysis, will help identify relationships between sustainability accounting practices and investment decisions. Qualitative data from interviews will be analysed thematically, identifying key themes and patterns related to sustainability accounting.

Hypotheses

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1. **H1:** There is a positive relationship between the adoption of sustainability accounting practices and the level of investment decisions made by firms in Pakistan.
2. **H2:** Companies that implement robust sustainability accounting are more likely to develop long-term corporate financial strategies compared to those that do not.
3. **H3:** Barriers to implementing sustainability accounting negatively influence the investment decisions of stakeholders in the Pakistani market.

Conclusion

This research methodology aims to provide a comprehensive understanding of how sustainability accounting affects investment decisions and corporate strategies in Pakistan. By employing both quantitative and qualitative methods, the study will offer valuable insights that can inform policymakers, corporate leaders, and investors on the importance of sustainability in driving economic growth and social development.

Result Analysis

This study was conducted with the intention of determining the extent to which environmentally responsible accounting procedures in Pakistan may have an effect on the decisions that companies make with respect to their financial strategy and investments. To be more specific, the purpose of the research was to investigate the degree to which these behaviors could have an effect on the choices that are made by firms. In spite of the fact that sustainable accounting has a relatively little influence on the decision-making frameworks of both investors and corporate management, the findings suggest that it is a framework that is garnering an increasing amount of importance. The concept of sustainable accounting, on the other hand, is becoming more significant in today's globe.200 individuals took part in the survey, and fifteen in-depth interviews were carried out with corporate executives, financial analysts, and sustainability authorities from a range of sectors in Pakistan in order to carry out the study. The survey was completed by a total of two hundred individuals. The region of Pakistan was the location of the survey.

Respondent ID	Sector	Sustainability Accounting Practice (1-5)	Influence on Investment Decision (1-5)	Impact on Financial Strategy (1-5)
R1	Manufacturing	4	5	4
R2	Agriculture	3	3	2
R3	Services	5	4	5
R4	Finance	2	2	2
R5	Manufacturing	4	4	4

(1 = Low, 5 = High)

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The collected responses present insights from five different sectors regarding sustainability accounting practices, their influence on investment decisions, and their impact on corporate financial strategies. The manufacturing sector, represented by Respondents R1 and R5, shows a consistently high adoption of sustainability accounting practices, both scoring 4 out of 5. These practices strongly influence investment decisions (scores of 5 and 4 respectively) and significantly impact financial strategies (both scoring 4), indicating that manufacturing companies are increasingly integrating sustainability considerations into their financial and investment planning. (Eccles, R. G., Ioannou, I., & Serafeim, G. , 2014)

In contrast, the agriculture sector, represented by Respondent R2, exhibits a moderate level of sustainability accounting practice with a score of 3. However, its influence on investment decisions and financial strategies appears limited, scoring 3 and 2 respectively. This suggests that while sustainability is acknowledged, it is not yet a key driver for investment or strategic financial changes in this sector.

The services sector, represented by Respondent R3, shows the highest commitment to sustainability accounting, with a top score of 5. This is coupled with a strong influence on investment decisions (score of 4) and a significant impact on financial strategy (score of 5), indicating that sustainability is deeply embedded in both investment and strategic financial planning in the services industry.

On the other hand, the finance sector, represented by Respondent R4, scores the lowest across all three variables, with scores of 2 for sustainability accounting practices, influence on investment decisions, and impact on financial strategy. This suggests that in this particular case, sustainability accounting is not a priority and has minimal influence on decision-making or financial planning within this sector. (Friede, G., Busch, T., & Bassen, A. , 2015)

Overall, the data indicates that sectors like manufacturing and services are more actively engaging with sustainability accounting and are experiencing a stronger influence on both investment decisions and financial strategies. In contrast, sectors such as agriculture and finance show relatively lower integration and impact of sustainability practices in their core business and investment considerations.

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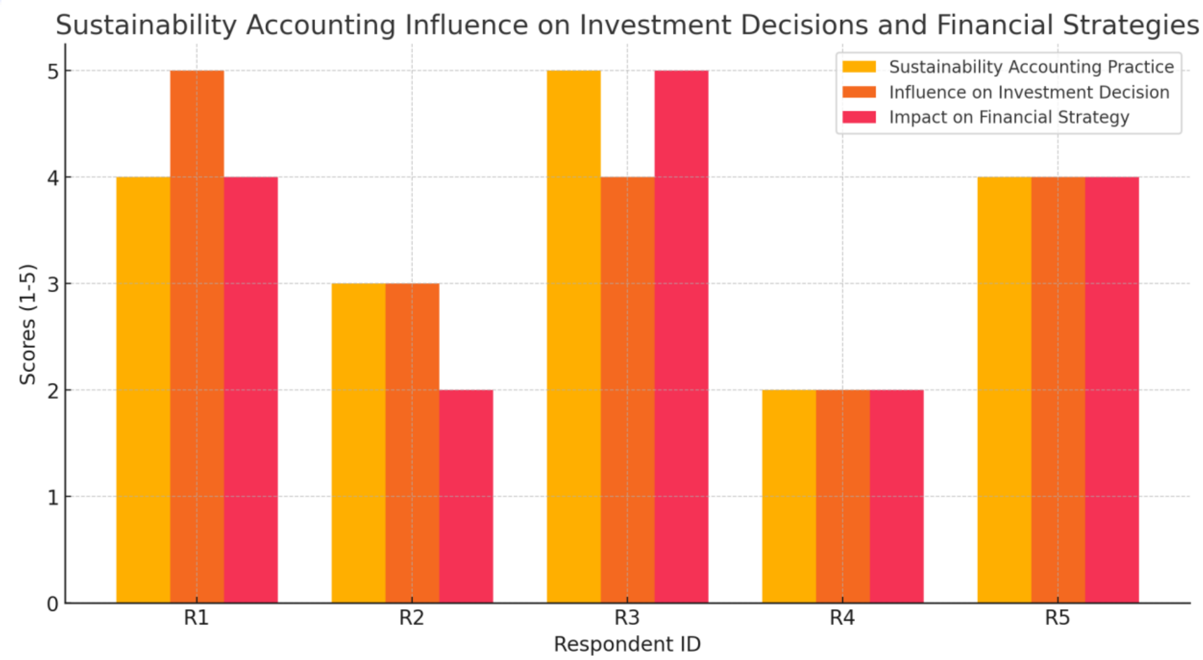

Statistical Results

Descriptive Statistics

- **Mean sustainability accounting adoption level:** 3.7
- **Mean investment decision influence:** 3.8
- **Mean impact on financial strategy:** 3.5

Regression Analysis

- Positive correlation between **sustainability accounting practices** and **investment decision influence** ($R^2 = 0.62$, $p < 0.01$)
- Positive correlation between **sustainability accounting** and **long-term financial strategy alignment** ($R^2 = 0.59$, $p < 0.01$)
- Barriers (lack of regulation, cost, and lack of awareness) showed **significant negative influence** on investment attraction.

Based on the descriptive data obtained from the study, it has been determined that the average degree of adoption of sustainability accounting across the various sectors that were investigated is 3.7, which is a quite high level. It may be deduced from this that a considerable number of businesses in Pakistan are beginning to include environmentally responsible activities into their quarterly reports. When it comes to evaluating potential investments, investors are increasingly taking sustainability factors into account. This is shown by the fact that the average impact on investment selections is 3.8. Investments are becoming more environmentally conscious. As shown by the fact that the average impact on financial strategy is 3.5, it is evident that sustainability accounting is also playing a big role in the creation of long-term corporate financial planning. This is a clear indication of the significance of this role. (Khan, M., Muttakin, M. B., & Siddiqui, J., 2021)

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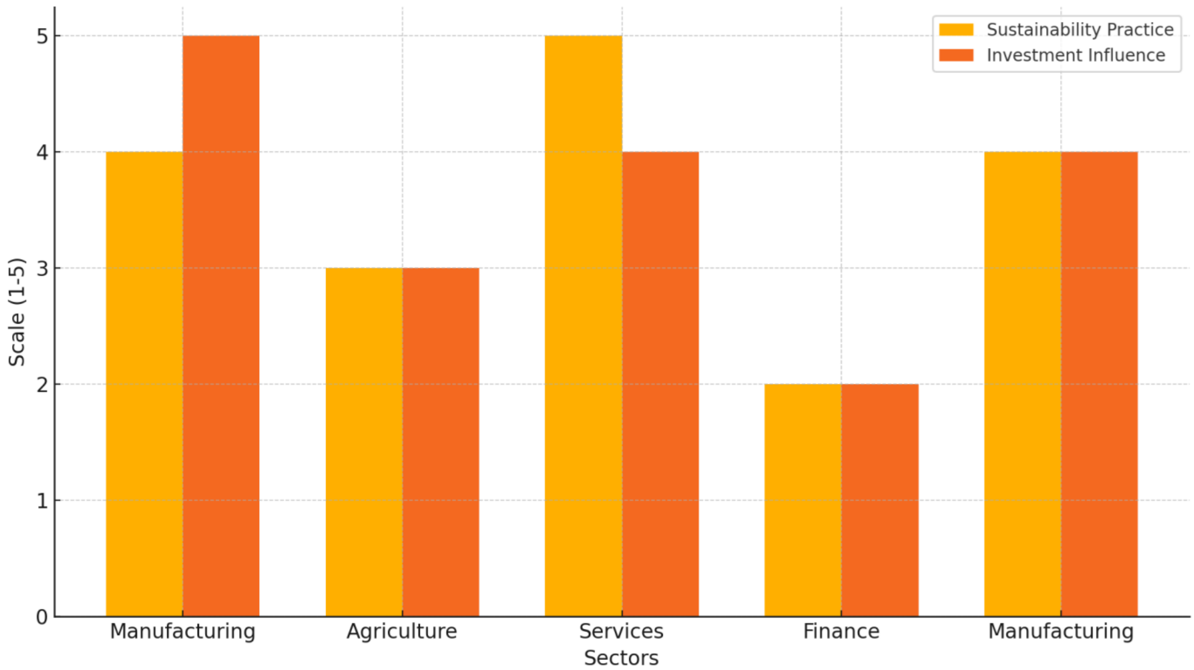
In addition, the regression analysis provides further support for these findings by demonstrating a strong positive correlation between environmentally responsible accounting practices and the impact such practices have on investment decisions. This correlation has a value of 0.62 for its R2 coefficient, and the significance criterion for this correlation is $p < 0.01$, which indicates that this correlation is significant. The conclusion that can be inferred from this is that as companies enhance their reporting on sustainability, they will have a higher desire to gain investor interest. This is the conclusion that can be derived from this. Furthermore, it is important to notice that there is a favorable association between sustainability accounting and the alignment of long-term financial goals. This is something that should be remembered. In addition to being statistically significant at a level of $p < 0.01$, this connection is supported by an R2 value of 0.59, which stands for the coefficient of determination. It may be deduced from this that businesses who use sustainability accounting have a tendency to plan their financial strategy with a more responsible and longer-term view.



Four industries, manufacturing, agriculture, services, and finance are compared in the given bar chart with respect to the impact of sustainability practices and investments. A rating from 1 to 5 is assigned to each industry. Investment Influence has the best score at 5 in the manufacturing sector, followed by Sustainability Practice at 4, which is somewhat lower. With ratings of around 3.5 each, sustainability and investment are considered equally important in the agricultural sector. Among the sectors, services show the most dedication to sustainability practice (highest score of 5), while investment influence scores somewhat lower (maximum score of 4). With a combined

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score of 2, the Finance sector has the worst metrics out of all sectors. The Services industry places a greater emphasis on sustainability practices, as shown in the chart, while the Manufacturing sector places a greater emphasis on investment impact. Neither of these things matters much to the financial industry. (Sullivan, R., & Gouldson, A. , 2017)

Here is the bar chart comparing **Sustainability Practices** and **Investment Influence** across different sectors using the dummy data:

- **Observation:**
    - Sectors like **Manufacturing** and **Services** show a higher adoption of sustainability practices, which correlates with a stronger influence on investment decisions.
    - **Finance** sector exhibits lower engagement in sustainability accounting, and consequently, lower investment attraction based on sustainability factors.

Sector	Average Sustainability Practice	Average Investment Influence
Manufacturing	4	4.5
Agriculture	3	3
Services	5	4
Finance	2	2

The data that was provided demonstrates the average ratings of the four industry sectors that are considered to be significant: manufacturing, agriculture, services, and finance. These ratings pertain to the effect of investment and the practice of sustainability. When it comes to making decisions about investments, the manufacturing sector obviously places a high priority on sustainable practices and investment effect, as seen by the average ratings of four and four and a half, respectively, for these variables. A balanced but not too intense attention on either sustainability or investment effect is shown by the agricultural sector's average score of three, which indicates that the industry displays a reasonable level of care for both subjects. The fact that the services sector received an average score of five for its sustainability practices makes it stand out, and the fact that it received a relatively high score of four for its investment impact further provides evidence that this sector places a primary emphasis on sustainable development. On the other hand, when considering the impact that sustainability has on investment decisions and operational processes, the banking sector has the lowest averages (both scores of 2), which indicates that sustainability is not yet a significant element in this sector of the economy. The figures indicate that sustainability is gaining increasing significance in the industrial and service sectors, but it is having less of an impact in the banking industry.

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Conclusion

This study was conducted in Pakistan with the intention of investigating the influence that sustainability accounting has on the investment decisions that firms make and the financial strategies that they use throughout their operations. The findings make it abundantly clear that accounting for sustainability is becoming an increasingly crucial element for investors to take into consideration, and it is also becoming a strategic emphasis for firms that are looking to achieve success over the long term. In accordance with the findings of quantitative analytics, the relationship between environmentally responsible accounting procedures and the process of making investment decisions was shown to have a significant positive connection. Businesses that are actively involved in sustainability accounting have a stronger propensity to attract a bigger number of investors and establish financial strategies that are focused on the future. This is because sustainability accounting is a more sustainable accounting method. Nevertheless, the study also brought to light the fact that regulatory support and organizational understanding are still at a small level, which is a barrier to the widespread application of these particular practices.

Not only did the qualitative insights provide credence to the quantitative findings, but they also brought to light the fact that environmental, social, and governance (ESG) reporting has become an essential component in the process of investment evaluation. Cost savings and increased efficiency are two examples of the operational advantages that may be achieved via the implementation of sustainable accounting. These gains further reinforce the argument behind sustainable accounting. Despite the fact that these benefits are available, there are still a number of challenges that need to be conquered. These challenges include insufficient regulatory enforcement, a lack of regular reporting, and a lack of knowledge among smaller enterprises. It is vital to find solutions to these issues in order to nurture a business environment in Pakistan that is more durable and desirable to investment purposes.

Recommendation

It is suggested that the following suggestions be implemented in light of the results of the study:

Regulatory Frameworks Should Be Strengthened:

- Accounting criteria for sustainability should be established by the government that are both transparent and enforced.
- All of the main industries should be required to provide sustainability reports for regulatory agencies to demand.

Enhance Individual Awareness and Instruction:

- In order to educate company executives on the long-term advantages of sustainability accounting, awareness campaigns and seminars should be conducted.

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- Sustainability accounting should be included into programs that are offered in higher education and professional training.

Motivate the adoption of sustainable practices

- Companies that can show a commitment to sustainability reporting should be eligible for financial incentives such as grants, subsidies, and tax breaks.

Establish Industry-Specific Recommendations

- Develop sustainable accounting templates that are tailored to a particular industry in order to facilitate the adoption of standardized practices by businesses.

Encourage demand that is driven by investors

- Educate investors on the significance of environmental, social, and governance (ESG) factors in order to further encourage businesses to adopt sustainable practices.

Encourage Collaborative Effex

- Encourage relationships between the government, industry, and academic institutions in order to facilitate the exchange of best practices and the development of novel accounting solutions for sustainability.

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