

SUSTAINABILITY THROUGH CORPORATE REPORTING AND ENVIRONMENTAL ACCOUNTABILITY

Over the past 20 years, we have seen a growing realisation that the way we do business has a serious impact on the world around us. More recently, as energy and other resources become scarce, prices rise and the population booms, this has been matched by an understanding that the state of the world affects the way in which we do business. Finding ways to progress while minimising the use of natural resources and environmental decline is the central challenge of our age – but also one of the biggest potential sources of future success for business.

ACCA has long believed that organisations have a responsibility to account for their impact on society and the environment. The quality of environmental reports, though, is varied and the information contained within them often is of questionable value. So what can be done to encourage more robust reporting around sustainability?

ACCA recently brought together John McGee, chair of ACCA's Northern Counties Network, and a number of academics with a special interest in environmental reporting to discuss this important question. The event, held at Durham University, covered two key themes from ACCA's Research and Insights programme: 'environmental accountability' and 'the future of corporate reporting'.

The drive towards better environmental accountability by the world's businesses – through measurement and reporting – comes at a time when the future of corporate reporting is the subject of intense debate, in particular its complexity and increasing disclosure

requirements. The panel, chaired by Craig Vickery, head of ACCA Scotland, discussed the future of environmental reporting and the role that the accounting profession should play in encouraging sustainability.

The panel:

Kirsty Abrahams – graduate tutor in accounting and finance, Northumbria University

Karen Boyd – accountancy programme leader, Northumbria University

Rob Hall – principal lecturer and head of accounting, banking and finance division, University of Sunderland

John McGee – chair of ACCA Northern Counties Network Panel

Richard Slack – senior lecturer in accounting, Durham University

Craig Vickery (chair of roundtable) – head of ACCA Scotland

Jan Loughran – senior teaching fellow in accounting and employability co-ordinator, Durham University

Key issues

- is the annual report still considered to be a valuable document?
- do users, particularly analysts, take sustainability and environmental reports seriously?
- the difficulty of measuring sustainability and environmental impact
- is regulation the answer to encouraging sustainability reporting?
- what can companies gain from better reporting of their approach to sustainability?
- what is the future of sustainability and environmental reporting?



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How valuable is the annual report?

Early in 2013 ACCA carried out a research project which found that two-thirds of investors placed greater value on information they found elsewhere, than they did on the annual report. This begs the question: Is the annual report a valuable document?

The panel felt that while there were obvious limitations to the information provided in the annual report – it is, by its nature, historic – it is still an essential document. 'It's clear that analysts and others would miss the annual report if it was not there,' said Richard Slack. 'It's a comfort blanket – it captures what they already should know, but provides the security that what they already know is reliable,' added Rob Hall.

There was much sympathy for organisations over the volume of statutory information required and the consequent size of many annual reports, but

running alongside that was a deepening concern over the two contrasting halves of the average annual report – a complex and lengthy statutory section, and the 'front half', which is often no more than a PR exercise.

Richard Slack described the risk that the glossy front section of an annual report is an exercise in 'impression management', and creates a lens through which the rest of the report is read: 'If we see an upward sloping graph, that's good, and we read the report in an optimistic light. But a downward sloping graph would rarely make the final draft.'

The problem for sustainability reporting is that it falls firmly into this 'front half' – narrative reporting that is difficult to quantify and measure and as a result, wide open to manipulation.

Is there an audience for sustainability reporting?

In general, the panel admitted to a personal level of scepticism about the quality and usefulness of current environmental reporting. The major concern is that the reports are used as a PR exercise, and contain little quantifiable information that is of any use. 'Sustainability reports are used as an opportunity for companies to talk about their latest environmentally-friendly building,' said Karen Boyd, 'but the narrative rarely comes with any quantifiable evidence.'

Even so, most companies see the report as essential perhaps because, as Rob Hall suggested, no organisation can afford to be seen to be careless about the environment: 'People want to be seen as good, even if they are sometimes not.'

The panel agreed that, on the whole, analysts show little interest in environmental reporting – as long as there has not been a catastrophe that could affect the value of the company or future profits, they are happy. Overall, it was felt that environmental reporting will not hit the mainstream until there is greater demand from users for environmental information.



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Measuring sustainability

The biggest problem around sustainability – for capital markets as well as accountants – is that it is not easily measurable. The real cost of an industrial accident is a life, or irreparable damage to the ecosystem – how do you put an accounting value on that?

The accounting profession's predilection for measuring anything and everything was seen by the panel as a hurdle that will have to be overcome if better reporting around sustainability is to be achieved. Craig Vickery asked the panel if it felt that the profession was trying to 'force sustainability into the structure that we already have', while Richard Slack added that he had 'a fundamental concern with properly accounting for sustainability, when as a profession we are more concerned with measurement.'

But this fixation on measurement also spills over into business in general. 'We have an idea that we only manage what we measure, so perhaps we need to move beyond that,' said Jan Loughran, suggesting that sustainability reporting is about being open and transparent, and that should be the starting point. She added that at the moment, sustainability reporting can become an exercise in reputation repair, as opposed to the real intention, which is to leave the world a better place for future generations. Correcting that will require a change of mindset: 'My big fear is that we get so hung up on measuring something that we forget what we're trying to achieve.'

Is regulation the answer?

The panel considered whether a regulatory framework around sustainability reporting would create the impetus that is so clearly needed, but unanimously felt that sustainability is so objective that a clear set of standards would be impossible to achieve.

Jan Loughran suggested instead that regulatory requirements could concentrate on organisations providing an assessment of environmental risks: 'A risk report would be more likely to get investor and regulator buy-in, and is a great way of packaging what we all want to see.'

The difficulty of auditing environmental reports was also raised, with Kirsty Abrahams arguing that it is impossible for an auditor to verify a report and that assurance should be the role of a non-governmental organisation. Jan Loughran suggested that perhaps the aim should be to provide an independent critique of

an environmental report, similar to an OFSTED inspection, rather than assurance in the accounting sense.

In the absence of regulation, though, a different motivation has to be found. Rob Hall suggested that encouragement should be couched in the language of business: 'The driver has to be that there is money to be made by being environmentally friendly, and that is something that the accounting profession should be pushing.' John McGee said that he had seen first-hand experience of this, and that companies he had worked with had seen the financial benefit of recycling.

'The two things that would hook companies to sustainability reporting are embedding sustainability into risk reporting, and the idea of cost-effectiveness. If it becomes the norm, everyone will do it,' said Jan Loughran.

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Sustainability and strategy

One of the strongest forces in better environmental reporting is Generation Y, particularly the new graduates entering the workplace. This generation has a strong interest in green issues and, felt the panel, has the potential to radically influence sustainability reporting in the future. 'We have to change opinions and this generation is vital in that,' said Jan Loughran. 'The passion is there and companies should harness it. Give young people the room to let new ideas flow into organisations.'

There was a strong feeling, though, that sustainability must be addressed through business strategy. 'At the moment, environmental reporting is just another accounting tool,' said Kirsty Abrahams. 'Sustainability has to come from the heart of the business, and that means embedding it in business strategy.' John McGee added that the role of the accounting profession in environmental reporting should be as a manager of strategy, rather than a box ticker.

Richard Slack felt that requiring a report on environmental strategy would be an important step, and brought the added benefit that everyone in the organisation would have to be involved – 'it would not just be someone else's job'.

This would also require buy-in at board level, which was seen by the panel as essential to sustainability, and all agreed that a non-executive director, ideally with a strong environmental record, should hold ultimate responsibility. 'There are plenty of people out there with the environmental skills and experience that businesses need, and involving NEDs in this way could bring a whole new set of important skills into the business world,' said Jan Loughran.

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Change takes time, and often requires a leap of faith. But, concluded the panel, it can be done.

Asked what they would like to see in ten years' time, the unanimous response was 'that good sustainability reporting, that is taken seriously by analysts and users, is the norm'.

Craig Vickery concluded by thanking the Northumbria University, the University of Sunderland, and Durham University for their time, resources and valuable input.

For more information on ACCA's work around sustainability – or to discuss possible future involvement in ACCA's roundtables for academics – contact James Johnston on 0844 894 4807 or james.johnston@accaglobal.com

