

Accounting for society's values

A sustainable organisation is one that embraces the three components of economic, environmental and social action to deliver a long-term future. Whilst the conversation around social issues may pre-date that of environmental it feels to many that the social component is less well defined and inherently complex. Accountancy and finance professionals are increasingly being required to interact with this component.

Three key messages

- The future of the accountancy and finance profession is one that embraces sustainability, including the social agenda, in a just transition which balances social equity with environmental action.
- The social agenda is broad and complex and its constituents are often difficult to measure, but this does not excuse a lack of action.
- It is important not to stand by on these issues; there is a strong business imperative for action now and this agenda needs to be embedded into the view of strategy and performance.



2023 has continued to see organisations challenged across many dimensions. From economic uncertainties, labour shortages, supply chain vulnerabilities to biodiversity and human crises there are many variables and risks. Over all of these sits the need to make organisations sustainable. The drive towards long-term sustainability is not one that is solely related to the environmental goals of restricting the rise in temperature to 1.5°C, rather in achieving that it is important not to lose sight of the social impact that this may have on the suppliers, employees and consumers in the value chain (Figure 1). An equitable, or a just, transition is one that supports the growth of all the individuals whilst maintaining sustainable businesses.

The social agenda

The social agenda is broad. It considers how organisations interact not only with their employees, but also those in their value chain, their customers and the communities. Figure 2 illustrates one view of some of the elements of the discussion. They are not mutually exclusive across any of the lines, rather they represent an interconnected eco-system.

The world is diverse and the impact of one of these elements in one economy will not be the same as that in another. Economies are at different stages of progression and that in turn dictates different forms of action and investment are needed to deliver progress.

FIGURE 1: The three domains of sustainability – the triple bottom line

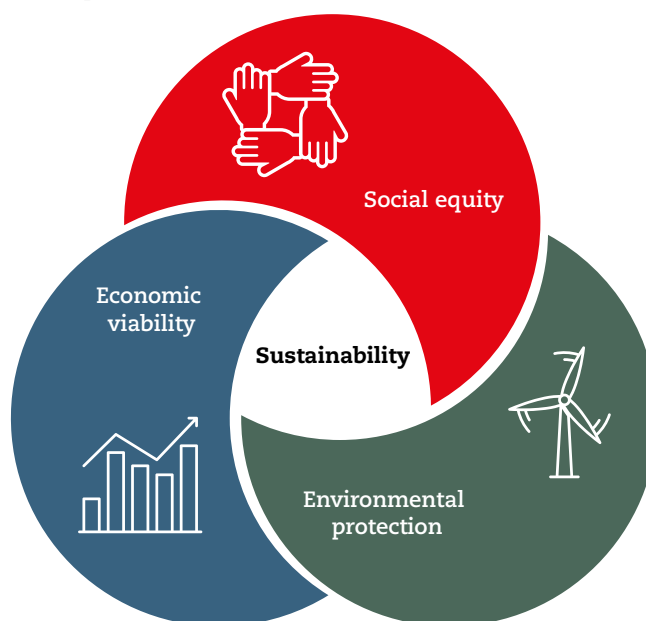


FIGURE 2: A model of the social agenda



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As an example, consider the concept of a living wage. A living wage is that which is high enough to maintain a normal standard of living through employment and without government subsidies. How that wage is defined against each of those variables will differ from one economy to another. However, ensuring that all those who economically participate in the value chain have an appropriate standard of living which is sustainable in the longer-term is essential.

The important interaction of organisations with the communities in which they operate has been the subject of much debate. Frameworks such as the UN Guiding Principles on Business and Human Rights, published in 2011, provide insight and guidance on this contribution.

As governments and non-governmental agencies become increasingly concerned about the progress towards a just transition, so there is an increasing regulatory lens being placed upon it. The draft European Sustainability Reporting Standards that were finalised in late 2022 for implementation in 2024 require disclosure of the progress that organisations are making across their chains of activity (the downstream portion of their value chain) in respect of environmental, social and governance related activities. Other regulators and standard setters are looking towards similar disclosures and the investor community increasingly appraises these dimensions.

The role of the accountancy and finance profession

This agenda is important across the accountancy and finance profession both for the professional in practice and those in business. There are three key reasons why this matters to accountancy and finance professionals as shown in the box to the right.

Whilst the social agenda may not be immediately seen as a cost, the concept of value is one that is increasingly relevant to finance professionals. For example, we tend to view staff as a cost in organisations, yet without these team members there is no value created. For many organisations people in their organisations and their value chain are their significant differentiator. How organisations measure the return to society of their activities can no longer be ignored. Defining and measuring value is becoming as important as the financial objectives on their own. The concept of value is an important one; the measurement of it may be complex, yet it underpins why organisations exist.

In organisations there is a three-fold need to embrace the agenda:

- Through guiding the development of the organisation's strategy in a manner that embraces the social objectives and is cognisant of the aspects required under reporting regimes.
- Ensuring the organisational performance is measured in way that reflects the nature of the transition required, but in so doing, ensuring that there is robust data available to do so. In turn this means embracing non-traditional data sources, some of which may be more subjective in nature, but equally applying the appropriate level of control to them to address attestation requirements.
- Delivering against external reporting requirements, accepting that these relate in part to activities in the value chain and require a close collaboration with those in procurement and sales roles to create the required data transparency along the value chain.

The profession needs to see this as an opportunity. One that defines the future role that it plays in society itself; how it works to ensure that organisations and societies move forwards in an just and equitable manner, whether, as a profession, it is attractive to potential recruits through being seen to be adding value to society and overarching this our ethical lens focuses on ensuring that equitable balance.

Conclusion

None of the components of a just transition stand in isolation. They are all strongly interconnected. Failing to focus upon all will compromise progress on the others. The 's' stands for society, and accountancy and finance professionals have an essential role in defining the society that we want for the future. It is important not to stand back from that role.

Three key reasons why this matters to accountancy and finance professionals

- Sustainable organisations are those with a combination of economic, social and environmental objectives in balance, and are essential for our future.
- Stakeholders and regulators are focusing on the social implications of the actions of organisations and so must we.
- Performance-management processes need to reflect the strategic goals of organisations, and finance teams need to embrace this; without this rigour, together with external assurance obligations in reviewing controls over performance, trust will dissipate if we fail to ensure a just transition.

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