

Reporting with Reputation and Returns - The Emerging Significance of Sustainability Accounting

Varun Rajan¹

Abstract

Sustainability Accounting (SA) and Sustainability Reporting (SR) are relatively new concepts in today's world but they have immense potential to develop businesses. This paper tries to convey the significance of both Sustainability Accounting and Reporting with the help of its history and how it has developed in the recent decades. It has portrayed the benefits and the need for sustainability in accounting and reporting also as we all know that all dimensions of sustainability need to be covered. Though there are many challenges with implementing sustainability accounting there are also many opportunities in the future for this concept. Since the concept chronicles around sustainable development in reporting, accounting with bringing to light the importance of the social and environmental dimensions in sustainability, there is a lot of scope to grow. Many organizations have already started issuing sustainability reports and adopting sustainability accounting in their activities. In a crux SR & SA is beneficial for all stakeholders and is the best way for an organization to keep everyone happy along with achieving its organizational objectives.

Keywords: - Sustainability, Accounting, Reporting

JEL: Q56

¹Student, Symbiosis Centre for Management Studies, Pune.
(varunrajanx2@gmail.com, 9999935705, 7066532022)

Reporting with Reputation and Returns - The Emerging Significance of Sustainability Accounting

Introduction

Sustainability could be defined as an ability or capacity of something to be maintained or to sustain itself. It is significant in today's world as the resources are limited and the essence of the hour is development of global economies as a whole. Sustainability helps in increasing and improving the overall efficiency of both economic and non-economic activities across the globe. Sustainability is generally divided into three dimensions (i) Environmental factors that deal with natural resources like water energy greenhouse gases etc, (ii) Social Factors which include human rights , public policies , social safety and anti-corruption, (iii) Economic Factors which focus on accountability, value of stakeholders, economic and financial performance (Learn, n.d.).

Sustainability Accounting Concept

Sustainability Accounting on the other hand is a relatively new concept and gives weight to the social and environmental factors also unlike other management functions which give most concern to economic factors. Sustainability Accounting is the process of disclosure of non-financials also to stakeholders of an organization. It differs from Financial Accounting as it also deals with economic, social and environmental performance in such a way that benefits suppliers, government , employees and customers. This is done through certain ways like sustainability reporting, corporate social responsibility and non – financial reporting. With the use of these instruments the world economy can become healthier and more efficient in the coming generations as these instruments benefit all parts of society. Unlike financial accounting, sustainability accounting does not put overemphasis on money and cash flows, it is more concerned with improving the economic performance of an organization by promotion of transparency to stakeholders.

This is justified by the motto of Sustainability Accounting which is the 3P's – People, Planet and Profits. In most organizations the only goal is profits but sustainability accounting is an initiative for the people and planet. People are the stakeholders of an organization be it the

suppliers, customers, employees or investors and sustainability accounting protect the interests of these people. Planet is the natural resources in the world and sustainability accounting is a way which suggests innovative ways to limit depletion of Earth's resources by increasing efficiency of an organization.

Emergence of Sustainability Accounting

It has come up from developments in the field of accounting. The main concept was to modify the traditional techniques of cost, managerial and financial accounting. This was to be done by bringing some changes which were necessary to bring up sustainability as an aim in accounting also. It was a whole new approach to base the whole system of accounting on promoting a strategy of sustainability. It started in the early 1970's where a few organizations started disclosures which had information related to the social dimension like employees and investors. A lot of environmental and social matters were brought up during this decade. In this period there were no frameworks or standards set up.

In the next decade that is 1981 – 1990 there were two stages – the first was more into the social dimensions and social audits and the second which is the latter 5 years was into environmental dimensions. In 1990 to 1995 the concept of environmental dimensions further developed.

Since 1995 there have been many developments as the need has also increased with the amount of scams that have occurred in the recent years. Global Reporting Initiation (GRI) was set up in 1997 which was one of the first initiatives to encourage and promote Sustainability Accounting and Sustainability Reporting.

In India also there have been many developments illustrated in the table below: -

Table 1 – Initiatives and Policies Year wise in India

Years	Initiatives and Policies
2013	Companies Act 2013 makes it mandatory for all companies to keep CSR activities as 2% of net profits earned during the year
2011	New Company's Bill tabled in Parliament for discussion SEBI Board decides to mandate submission of Business Responsibility Report by top 100 listed companies as per NVGs. Release of National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business by Ministry of Corporate Affairs
2010	Guidelines on Corporate Social Responsibility for Central Public Sector Enterprises released by Department of Public Enterprises, Govt. of India
2008	Release of Voluntary Corporate Social Responsibility Guidelines by Ministry of Corporate Affairs Release of National Action Plan on Climate Change (CC) by Prime Minister's Council on CC
2006	Revised EIA notified to include 7 more sectors taking it to 39
2003	Charter on Corporate Responsibility for Environmental Protection (CREP) by MOEF SEBI modifies clause 49 to incorporate recommendations of its Committee on Corporate Governance and public feedback
2000	SEBI specifies principles of Corporate Governance as listing requirement under clause 49
1994	Environment Impact Assessment (EIA) notified by Ministry of

(Bauer, 2012)

Sustainability Reporting

Sustainability Reporting is a method in Sustainability accounting which involves the making of a sustainable report which is an overall organizational report which includes the goals, vision and missions of the organization. It gives information about how the organization wants to contribute to the economy, society and environment. This can be used by stakeholders like investors, government to understand the underlying motives of the organization. The sustainability reporting is gaining popularity slowly but steadily as it is a very effective way to show commitment of an organization towards development of the economy, society and the environment. This enhances internal performance of an organization and also helps in increasing the reputation of an organization in the eyes of the corporate world.

Types of Reports

Annual report is a comprehensive report on what a company has done throughout the year. It gives emphasis on financial statements like Income Statement which is the Profit and Loss and Position Statement which is the Balance Sheet. It also includes the cash flows so it has emphasis on money and profits. It does not deal with the social and environmental parts of sustainability. Infact even economically annual reports do not seek for sustainability with efficiency. Basically it is only concerned with the financials and conveys to the owners how the company is doing in terms of assets, liabilities, profits, reserves etc.

On the other hand a **sustainability report** deals with other factors like social and environmental factors also. It handles the economic part also better as it is done with instruments like CSR that follow guidelines thus increasing effectiveness and efficiency of the organization. A sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy.

The **integrated reporting** is a new standard for corporate communication, and helps to complete financial and sustainability reports. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects lead to the creation of value over the short, medium and long term. It means the integrated representation of a company's performance in terms of both financial and other value relevant information. Integrated Reporting provides greater context for performance data, clarifies how value relevant information fits into operations or a business, and may help embed long-termism into company decision making.

Need & Significance of Sustainability Accounting and Reporting

The concept helps in building trust with all stakeholders of the companies so the relation between the company and its suppliers, customers, investors is further strengthened. Making sure that the individuals and groups that are involved with the organization have a good relation is important as eventually all deals work on mutual consent. Trust is a very important

factor that makes this possible thus demonstrating openness and accountability, responsibility of an organization. It helps to maintain transparency about both financial and non-financial performance unlike previous methods. Non-Financial performance is also given weightage in sustainability reports.

Sustainability Accounting also improves internal processes and systems by allowing suggestions from internal and external stakeholders. By disclosure of all non – financial facts like qualitative information helps in solution and simplification of activities inside an organization. This helps the internal management to make better decision in lesser time. This eventually leads to lesser costs as monitoring of various issues like consumption of materials, waste of materials etc. This overall increases the productivity of organization which leads to better economic performance.

In a sustainability report it is necessary to clearly define the mission and vision of the organization. Through this it is easy to find out the goals that need to be achieved during a certain period of time. Also many strategies and policies are made after a lot of analysis. This helps in two ways – first being usefulness for the analysis of strengths weaknesses, opportunities and threats, second being the policies are much more effective and efficient. Sustainability becomes a coherent part of all strategies and operations which ensures smooth functioning of the organization

Sustainability Reports make sure that an organization complies with all legal requirements and guidelines that are set up by any authority. As sustainability accounting is an initiative it has its own Standards like GRI has G 3, G 3 .1 and the latest G4. This helps in meeting regulatory requirements and avoiding fines and penalties being levied on the organization. When an organization adopts sustainability measures it automatically gets an advantage over companies in the same industry as well as different industries. Companies that issue sustainability reports are considered to be leaders and innovators so it is in a much better position to negotiate for investment. This also helps in attracting more customers that will be brand loyal to an organization. People seeking for jobs will also be eager to join such an organization as there would be a very good working environment. This also helps an organization to diversify its products for growth and expansion into new areas of business.

Risk Management is another important function of Sustainability accounting as it thoroughly analyses all the future uncertainties that can occur in an organization. The policies and strategies are made in such a way to mitigate risks and also control risks so that they have the least possible impact on the organization if they occur

Benefits of SR & SA

There are also several other benefits that companies can avail by issuing sustainable reports and using sustainable accounting.

Internal benefits for companies and organizations can include:

- Increased understanding of risks and opportunities
- Emphasizing the link between financial and non-financial performance
- Influencing long term management strategy and policy, and business plans
- Streamlining processes, reducing costs and improving efficiency
- Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives
- Avoiding being implicated in publicized environmental, social and governance failures
- Comparing performance internally, and between organizations and sector

External benefits of sustainability reporting can include:

- Mitigating – or reversing – negative environmental, social and governance impacts
- Improving reputation and brand loyalty
- Enabling external stakeholders to understand the organization's true value, and tangible and intangible assets
- Demonstrating how the organization influences, and is influenced by, expectations about sustainable development

(Bertazzi, n.d.)

Push & Pull Factors

There are certain push and pull factors also that influence companies to go towards sustainability accounting.

ISSN 2348-0661 Print

Push factors are basically the external factors that influence an organization

- Relations with Investors
- Customers and Consumers satisfaction
- Global Economic Integration
- Pressure from Political , Social Issues
- Needs of the employees

Pull factors are basically the internal factors that influence an organization

- Increased efficiency with emphasis on sustainability
- Better control over management
- Encourage employees to reach heights of their potential
- More standard and uniform with the use of guidelines and framework

Frameworks & Initiatives

The concept of sustainability accounting is going on in the global economy and is relatively new so it has a lot of potential to grow with the objective of sustainable development. It basically acknowledges the fact that financial information can be shown along with social and environmental factors to increase the overall impact. The frameworks and reporting standards are not fully developed and established but there are a number of standards guidelines and regulations to follow like Global Reporting Initiative Standards. This basically allows for more flexibility while making reports and the sustainable report aims to deal with all factors. This leads to alignment of organizational goals with other stakeholders in such a manner that the organizations relations are strengthened

These days companies use various different methods of reporting like performance reports of the three sustainability dimension – environmental, social and economic. The size of the reports depends and varies from company to company. The company makes a hard copy available as well as a downloadable PDF on their official website. Companies require help and assistance in creating such reports and there are organizations like GRI that provide the same. GRI is the most used standard by companies as it has been around for the longest in the sustainability accounting era.

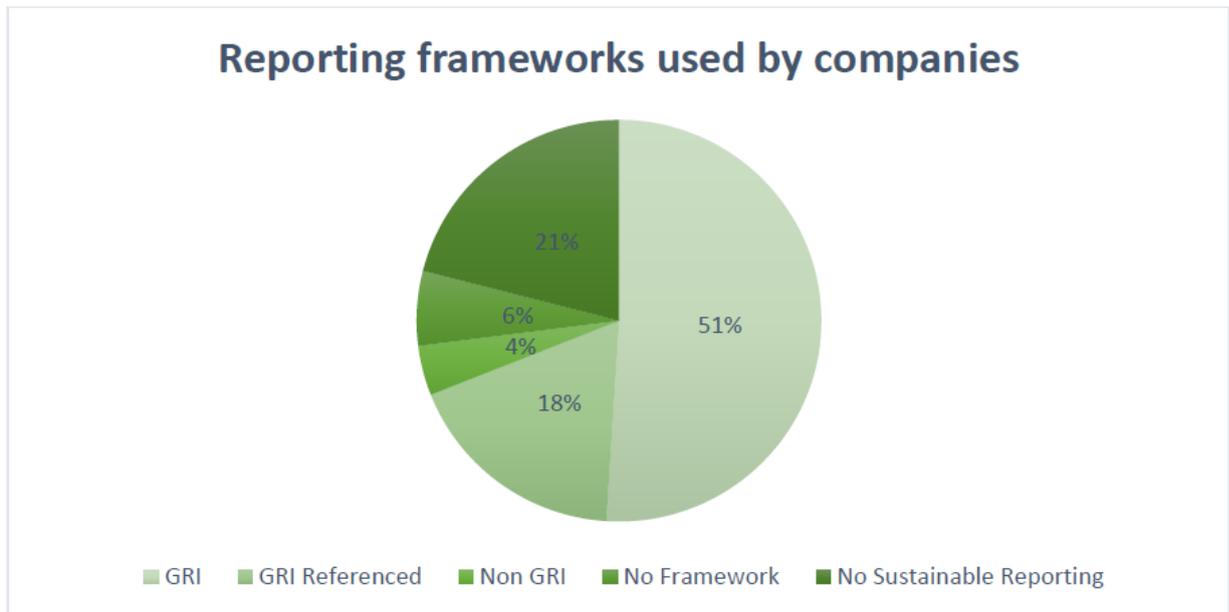
Sustainability accounting is still developing so it is not necessary by the law for a company to issue sustainability reports in almost all the countries. But there are still many frameworks that make guidelines and standards, by following these a company gains all the benefits as mentioned above and by not following a company just loses out on extra credibility and reputation.

There are 3 main organizations that are involved in the Sustainable Accounting and Reporting activities like development of policies and frameworks for better integration of the three dimension of sustainability :-

GRI -“The GRI is a multi-stakeholder organization that is committed to developing and maintaining the "Sustainability Reporting Guidelines." The goal is the continuous improvement of sustainability reporting, this is only a protocol that approaches the application levels. There are three levels of reporting A, B and C, but these are not yet legally ratified fundamentals and are only used to assist companies with their sustainable reports.

GRI is one of the main initiatives that supports Sustainability Accounting and Sustainability Reporting and issues a lot of standards. From the year 2000 till now G1 G2 G3 G3.1 and G4 Standards have been framed by GRI and that is why most companies follow GRI or take assistance from GRI

On the one hand the UNCSD focuses only on the environmental dimension of the sustainability accounting. On the other hand the OECD (Organization for Economic Co-operation and Development) focuses only in two frameworks - the analytical and accounting frameworks



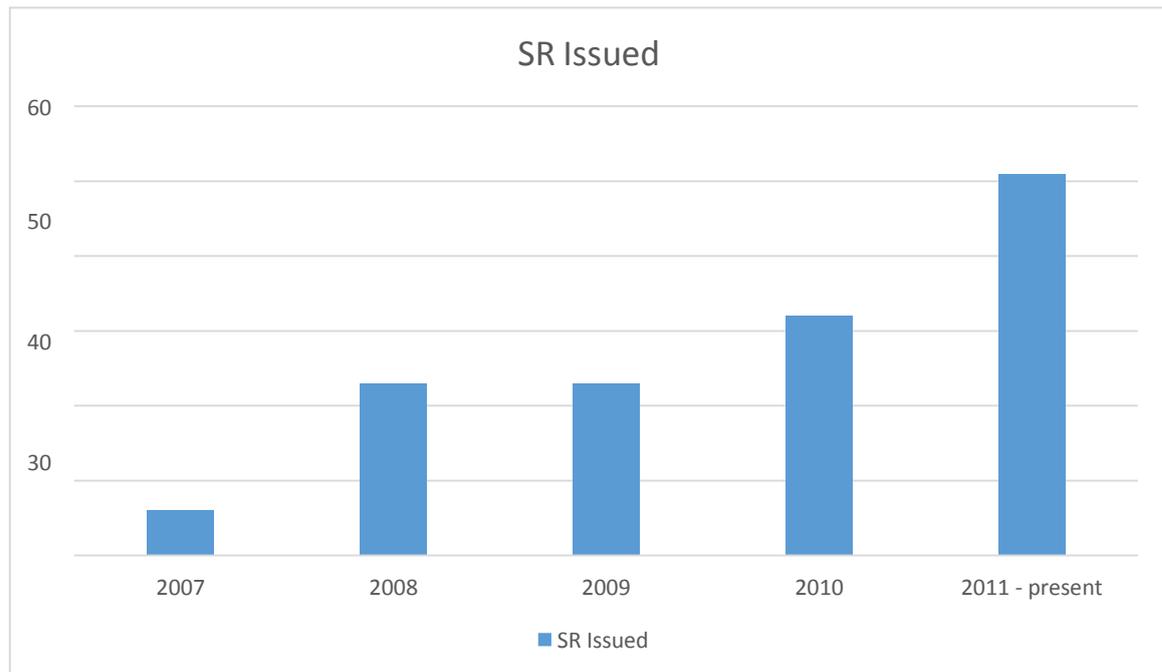
Majority of companies use GRI as it is the most user friendly Initiative (Citizenship, 2013)

Challenges Faced

Most of the challenges associated with sustainability accounting and reporting is the availability, reliability of the data. It is very tough to find accurate data for the same. Some companies just don't want to publish and disclose information to the public where as others don't think it is necessary to issue such reports. Small companies have limited resource to prepare such reports as these are time consuming and are also expensive as there is a requirement of a lot of analysis.

Future Opportunities and Trends

Sustainability Reporting and Accounting has a very bright future as many organizations have started adopting frameworks of sustainability accounting as they have understood the need and importance of these concepts. They now feel that these concepts can boost their image. In India about 80 companies have started this. The number of Sustainability reports issued also keeps increasing as in the chart below



(Bauer, 2012)

References

Bauer, S. (2012, May). Retrieved from Giz: <http://www.giz.de/en/downloads/giz-2012-sustainable-reporting-india-en.pdf>

Bertazzi, P. (n.d.). GRI - Information - SR - Pages. Retrieved from GRI: <https://www.globalreporting.org/information/sustainability-reporting/Pages/reporting-benefits.aspx>

CitizenShip, E. Y. (2013, March 8). Ernst Young - Services - Speciality Services. Retrieved from Ernst Young: <http://www.ey.com/US/en/Services/Specialty-Services/Climate-Change-and-Sustainability-Services/Value-of-sustainability-reporting>

GRI. (2011). GRI –Resource Library. Retrieved from GRI: <https://www.globalreporting.org/resourcelibrary/GRI-Year-In-Review-2010-2011.pdf>

Kumar, K. (n.d.). Retrieved from AIMS: <http://www.aims-international.org/aims12/12A-CD/PDF/K465-final.pdf>

L, J M (n.d.). Questia-Library - Journal. Retrieved from questia:
<https://www.questia.com/library/journal/1G1-397579856/the-benefits-of-sustainability-and-integrated-reporting>

Learn, L (n.d.). Sustainability: Landlearn. Retrieved from Larn Learn: <http://www.landlearnsw.org.au/sustainability/what-is-sustainability>

Sharma, A. (2013, January). IOD ONLINE - ARTICLES. Retrieved from IODONLINE:
http://www.iodonline.com/Articles/Arvind%20Sharma%20-%20Sustainability%20Reporting%20Trends%20in%20India_KPMG.pdf

TOI. (2014, March). TOI - Business. Retrieved from TOI:
<http://timesofindia.indiatimes.com/business/india-business/80-Indian-companies-are-now-doing-sustainability-reporting/articleshow/17573219.cms>