ABSTRACT

In this globalised world, there has been a growing demand for sustainable development from different stakeholders of the corporate across the globe against the backdrop of depletion of natural resources as a result of greed for more profit, expansion, need for longer survival in the market. There have been several social, economic and environmental challenges to the activities of corporate. How do corporate meet these challenges? The answer to these questions calls for insight into the details of corporate sustainability reporting process and its other dimensions. Accounting measures and reports all the economic activities of the firm but sustainability reporting for accounting measures and reports both economic and non-economic activities of the firm and accountable to stakeholders (both internal and external) for organizational performance towards the goal of sustainable development. In this paper, an attempt has been made to reflect upon the various dimensions of corporate sustainability reporting for accounting vis-a-vis basic accounting policies and managerial relevance for improved performance and management control.

Keywords: Sustainability Development; Sustainability Reporting

INTRODUCTION

Corporate Sustainability Reporting for Accounting

The concept of sustainability is - being responsible with resources - “people, land, energy, water, materials and capital.” Thus, with the adoption of sustainable development concept as defined by the Brundtland Commission of United Nation on Environment and Development, 1987, the view of the enterprises is changing across the globe. The enterprise is interpreted as units of environment, social and economical dimensions and only reproduction of these three dimensions allows its sustainable development (Bent, 2008). Taking a clue from this definition, many accounting practitioners have viewed sustainability almost exclusively as representing environmental, i.e. ecological and sometimes social issues, and sustainability reporting as telling how green and socially responsible a corporate has been. But sustainability, especially in an accounting context is that a sustainable entity is one that is well off at the end of a period as at the beginning with respect to use of all resources e.g., environmental, human, social, ecological, financial, technological, etc. Therefore, Corporate Sustainability Reporting or Triple Bottom Line (TBL) reporting has indeed become an important tool being used by the organizations to become more sustainable. This shows how traditional accounting is extended by improving transparency and accountability by reporting on Triple P's.
Sustainability is a broad concept which talks about the sustainability of the enterprise as a business involving production, sales, marketing, as well as sustainable financially, legally, etc. The users of financial information constantly desire more information about the organisation (both financial and non-financial) to assess the corporate sustainability and risk associated with sustainability.

**OBJECTIVE**

1. To educate the accounting professionals on the relevance of sustainability issues. This responsibility lies with the organizations and institutions which want to see increased sustainability disclosure, such as responsible investors, NGOs, special interest groups, consumers, governments, and stock exchanges.

2. To build awareness that the process of reporting is integral to the long term strategic goals of companies.

3. To guide companies and regulators, on regular basis, to raise awareness of sustainability and the benefits of sustainability reporting as mandating sustainability reporting may not be conducive to the production of comprehensive and useful reports.

**Purpose of this paper**

The purpose of this paper is to educate the professionals as how to evaluate the environmental, social and governance performance of companies through an account of their management of various forms of non-financial capital associated with sustainability – social, economic and environmental – and corporate governance issues, which they rely upon for sustained, long-term value creation.

Secondly, inform to various stakeholders about development of an integrated business strategy for corporate management and assess sustainability risks and opportunities inherent to investment decisions.

Thirdly, this paper is intended as a complement to financial accounting, such that financial information and sustainability information can be evaluated side by side and provides a complete view of a corporation’s performance and value creation, both financial and non-financial, and across all forms of capital.

**Why Corporate Sustainability Reporting For Accounting?**

In recent times, call for corporate sustainability reporting for accounting have become stronger, more frequent and more urgent. As there is no common notion of sustainability, per se, especially in an accounting context, most of the previous researchers have adopted the definition of sustainability developed by Bruntland (1987) over 25 years ago for the World Commission of Environment and Development of the United Nations. This definition while being innovative and groundbreaking for the time, can be seen as somewhat obsolete for the current era of research in the field of accounting for sustainability. Among other things, it focuses on external sustainability, i.e. sustainability of ecological and social systems, while the current focus on accounting for sustainability is on sustainability of an entity or enterprise as a whole.

Thomas L. Friedman, a New York Times Columnist and award winning author, in his recent book on sustainability, Hot Flat and crowded (release 2.0, 2009) has explicitly used accounting terminologies to describe inadequacies of accounting practice for sustainability. He links both financial sustainability in the recent US financial crisis and environmental sustainability as being part of the same phenomenon: inadequate accounting that does not adequately consider risk. If the risk involved in the subprime mortgages or default insurance had been properly priced into these products, they would never have been rated the way they were. Investors would have been much more wary and demanded much higher yields before buying them, which would have forced the mortgage brokers to be more careful in deciding whom to give these mortgages and the banks to be more careful in choosing which ones to bundle.
The well-known financial sustainability failures and near failures of companies like Enron, WorldCom, Parmalat and Ahold in the last few years have called for serious concerns and review of financial reporting, auditing and enforcement. These financial sustainability failures resulted not only in investor and creditor losses but also massive losses for society and are clearly social and environmental sustainability issues as well. The sustainability failures were directly related to non-compliance with accounting standards, audit failure and enforcement failures.

While pricing of product may be viewed as a marketing issue, under IFRS and accounting standards of most industrialized nation, valuation of cost of goods sold and the inventory of buyers would require an adequate risk assessment to measure amounts in financial statements of both sellers and buyers. Furthermore, the principle of going concern applies to all valuations in financial statements and under pricing of financial risk raises serious issues of going concern. As a result, corporate sustainability failures in the recent financial crisis related to inadequate pricing of risk in products are indeed issues of accounting for corporate sustainability. Friedman (2009, pg.25), citing the WWLF’s Living Planet 2008 Report, has reported that many companies are over-valuing its financial assets and under-value the environmental assets, thereby causing an ecological credit crunch that are the basis of all life and prosperity. Further, most nations do not put a price on the natural resources consumed and they too are ‘underpriced’ and therefore overexploited – with the profits privatized and losses socialized.

**Accounting For Corporate Sustainability Measurement**

In this perspective, it is imperative to identify the role of accounting to measure economically the social and environmental activities, taking decisions on social and environmental related issues based on cost-benefit analysis, managing social and environmental costs, taking capital budgeting decisions, green justification of processes and products, preparing financial statements in compliance with GAAP, getting the financial statements audited by an independent qualified auditor and disclosure in financial statements for decision making by the shareholders. The basic objective is to account for economic effects of social and environmental activities of firm to promote quality of life. In a broader sense, accounting includes financial and cost and management accounting issues besides control functions like internal and external audits. Some of the relevant and conflicting issues are;

- How to recognize the social and environmental effects on traditional accounting practices and framing of accounting policies?
- Are the social and environmental related costs and revenues separately identified, measured, and reported in the traditional accounting system?
- What are social and environmental costs? Is proper classification and allocation of social and environmental costs result in better decision making?
- What is the financial and operational effect of social and environmental protection measures on capital budgeting decisions and earnings of the company for the current year? Do they have any specific effect in the future periods?
- What accounting standards do we need for measurement or reporting of economic activities that care of social and environmental issues? Has the FASB or IASB issue such standards? How can Indian accounting standards authority cooperate with other important international accounting standard setters to capture, identify and measurement and disclosure of socio-economic costs and benefits of a firm in India?
- Is the capital budgeting decision making process suitably adjusted for justifying ‘green technology’?
- What policies are being followed for amortization of social and environmental expenditure?
- How does the company treat additional expenditure incurred for training of employees to enhance their environmental awareness?
The above-mentioned issues are pertinent in context of accounting for corporate sustainability and reporting. Some of important issues are discussed briefly in the following paragraphs.

Accounting Policies

Accounting policies form the basis of measurement and reporting of economic activities of the firm. These refer to specific accounting principles and the methods of applying those principles adopted by the enterprise in the preparation and presentation of financial statements. There is no single list of accounting policies which are applicable to all circumstances. The differing circumstances in which enterprises operate in a situation of diverse and complex economic activity make alternative accounting principles and methods of applying those principles acceptable. The choice of the appropriate accounting principles and the methods of applying those principles in the specific circumstances of each enterprise call for considerable judgment by the management of the enterprise. The social and environmental awareness of the company, translation of the awareness into social and environmental measures leading to some economic activities and treatment of social and environmental-related expenses can be captured well only when accounting policies of the company make a suitable disclosure of them in appropriate places of the financial statements.

In India, Accounting Standard (AS) -1 deals with Disclosure of Accounting Policies. The purpose of this standard is to promote better understanding of financial statements by making the disclosure of significant accounting policies in the financial statements in the prescribed manner and such disclosure facilitates a more meaningful inter-period and inter-firm comparison.

A few of the disclosures that form part of the accounting policies are:

- Basis of classification of expenditure (whether revenue or capital) towards environmental and social protection measures and their financial outcome
- Capitalization and accumulation of such costs and amortization thereof
- Identifying revenue related environmental and social expenditure and their classification into suitable heads, like recycling, remediation, accident and safety, etc
- Disclosure of environmental and social related liabilities and provision
- Setting up of catastrophe reserve and use of the same
- Disclosure of contingent liability
Amongst the above, the disclosure of contingent liabilities is a complex issue. Contingent liabilities are disclosed, if material, in the notes to financial statements. The contingent liabilities relating to social and environmental activities of the company include:

- Liabilities, provisions and reserves that have been set for the current period and amounts accumulated to date;
- Contingent liabilities with an estimate of the amount involved, if the event is likely to occur. The possible loss could be quantified to the extent reasonably practicable. A feasibility study of remediation costs may be taken to estimate the contingent liability. However, if the possible loss cannot be reasonably estimated, a description of the nature of contingent liability should be furnished and the reason why an estimate of the amount of the loss cannot be made should also reappear as part of the note.

It may be worthwhile to mention that AS-4, Contingencies and Events Occurring after the Balance Sheet Date, is to be complied with both in letters and spirit. The standard requires disclosure in respect of those contingencies and events which affect the financial statement to a material extent.

Further, corporate strategic cost and management accounting policies cannot ignore social and environmental factors. Social and environmental costs may be hidden, contingent and reputation-cum goodwill building or be an important part of allocated costs of the asset used for prevention of social and environmental degradation. The hidden costs are included in overhead expenses borne by all operations, rather than charged back to the departments actually using the services. Therefore, these items need proper analysis and allocation for decision-making and management control.

**Corporate Sustainability Reporting Principles and Contents**

In general, across the globe, Generally Accepted Accounting Principles (GAAP) governs the preparation and presentation of financial reports that are applicable in a particular context. But reporting of social, economical and environmental performances of the corporate is generally considered as a part of Corporate Social Reporting (CSR) and is likely to be guided by the same principles, guidelines and regulatory framework. Here, issues concerning sustainability are raised. Therefore, sustainable development includes social, economic and environmental performances of the corporate. The reporting principles and contents rooted in the premise of sustainability are briefly discussed below.

**Corporate Sustainability Reporting Principles**

A helping hand was offered to the companies by the Global Reporting Initiative (GRI), which has produced a set of rules and guidelines for corporate sustainability reporting. GRI follows the principles of sustainable development and its aim is to promote voluntary disclosure of environmental, economic and social aspects of companies. Global Reporting Initiative (GRI) was founded in 1997. It is a global initiative independent of institutions. Its purpose is to create generally applicable recommendations for reporting on sustainable development of an organisation. In 2000 GRI published its first guidelines, Guidelines 2000. The year 2002 saw a release of further guidelines: Sustainable Reporting Guidelines 2002. Currently, updated guidelines of the third generation are in force – so-called G3, which were issued in 2006. The GRI Guidelines on reporting constitute probably the most comprehensive framework for reporting on sustainable development of a company – i.e. on economic development that observes environmentally-sound approach and takes into account social aspects of business (Hřebíček, Kokrment 2005). The GRI Sustainability Reporting Guidelines are periodically reviewed to provide the best and most up-to-date guidance for effective sustainability reporting. Subsequently it has witnessed few changes with the introduction of G3.1 and G4 versions. The G3.1 version contains general and sector-specific content that has been agreed by a wide range of stakeholders around the world to be generally applicable for reporting an organization’s sustainability performance. The aim of G4, the fourth such update, is simple: to help reporters prepare sustainability reports that matter contain valuable information about the organization’s most critical sustainability-related issues, and
make such sustainability reporting standard practice. The GRI Reporting Framework is presented in Fig-1 below.

![GRI Reporting Framework](image)

**Fig. 1. GRI Reporting Framework**

**Source:** Source: Sustainability Reporting Guideline, 2011

The GRI reporting principles seeks to answer the following questions in the context of sustainability reporting:

1. What are the core principles that form the framework of the report? The core principles are Transparency, Inclusiveness and Auditability.
2. What information should involve the content of the report? The content of the report should have Completeness, Relevance and Sustainability.
3. What will be the quality of the reported information? The criteria of quality of the reported information are Accuracy, Neutrality and Comparability.
4. What will be the accessibility of the reported information? The accessibility of the reported information includes two important quality aspects, such as Clarity and Timeliness.

The principle of auditability depends on host of above-mentioned principles such as comparability, accuracy, neutrality and completeness. Auditability displays that the process underlying report preparation and information in the report itself meets standards for quality, reliability and other similar expectations. The principles of Corporate Sustainability Reporting are presented in Fig.2 below.

![Principles of Corporate Sustainability Reporting](image)

**Fig. 2. Principles of Corporate Sustainability Reporting**

The auditability principle refers to the extent to which information management system and communication practices lend themselves to being examined for accuracy and both internal and external parties. The reported data and information should be recorded, compiled, analysed and
disclosed in a way that would enable internal or external auditors to attest to their reliability. In a nutshell, the principles outlined above should help ensure that the sustainable development report presents a balanced and reasonable account of economic, social and environmental performance, and the resulting contribution of the organisation to sustainable development. Further, it facilitates comparison over time and across organisation and credibly addresses issues of concern to stakeholders.

Contents of Corporate Sustainability Report

Part C of GRI Guideline clearly elucidates the content of the report under the following broad headings:

1. Describe how a company’s sustainability priorities are integrated into its overall vision and business strategy
   • Define sustainability
     • Describe understanding of what ‘sustainability’, ‘social responsibility’ or ‘corporate citizenship’ means to the company
   • Reveal vision
     • Vision should look to the sustainability opportunities and challenges of supplying energy into the future.
     • Often presented in the context of existing corporate values, principles and policy commitments
   • Explain strategy
     • How to create value for its shareholders by means of its current performance; describing principal sustainability issues and approach to addressing them

2. Report on the role of the board and/or executives with regard to sustainability-related governance and management systems.
   • Outline board governance
     • How it functions, how often it meets, whether board members are associated with sustainability issues, etc.
     • Discuss the role of the most senior executives and their structure for managing the day-to-day business.
   • Detail management systems
     • The status, implementation and effectiveness of such management systems are usually addressed in a sustainability report

3. Report should be relevant to users and should be provided consistently to enable comparability
   • Defining materiality
     • Material issues for sustainability reporting are those that, have the potential to significantly affect sustainability performance
   • Use a simple process
     • Companies should establish a simple process to identify those material issues that warrant inclusion in their report.

4. Select Indicator and Data Collection
• Indicator selection
  • Material issues for reporting should inform the selection of indicators
  • The Guidance contains 33 performance indicators for use by companies to demonstrate how the issues are being addressed
  • Companies may choose to customize indicators or develop additional measures to report on key issues
• Data collection
  • Determine what quantitative data and qualitative information will be collected within the company
  • A choice of ‘reporting elements’ is provided that may be applicable to the company’s operations, and which define the types of information or data that can be collected.

5. Analyse the indicator data and incorporate the results into a narrative that describes performance progress
• Putting results into context
  • Developing a narrative requires a company to think strategically about how it communicates material issues and indicator data
  • How the results are relevant to the company’s operations
  • The nature of impacts on relevant stakeholders
  • The opinions of stakeholders or other credible third parties on those impacts
  • How the results may compare to relevant industry benchmarks or averages
  • Strategic responses, goals or lessons learned
  • Explain progress against goals
  • Plot progress against plans to achieve goals, together with explanations for variations in related performance
  • Recognize complex issues
  • Material issues may have many dimensions and involve reporting against a variety of indicators
  • Employ case studies
  • Including real-world challenges illustrate how a company can manage and integrate sustainability performance into its operations
  • Incorporating financial data
  • Can be useful to incorporate selected financial and operating information to provide business context when reporting on sustainability issues.

6. Inclusion of information to provide assurance on the content of sustainability reports is a common practice
• Assurance processes provide an opinion regarding the quality of reported information
• Audit-based verification
Typically focuses on quantitative data, may also seek to test materiality processes or assess qualitative statements or claims

- Third-party commentary
  - Can be statements by experts, a stakeholder panel, or academic, non-governmental organization (NGO) or community comments
  - May include views on management performance, progress and recommendations.
  - May also provide an opinion on whether the report includes the most relevant and material issues
  - Important to explain how assurance is achieved

7. Performance Indicators (Social, Economic, Environmental and integrated, if possible)

- Performance Indicators are categorized in terms of three dimensions of the conventional definition of sustainability – social, economic and environmental. Performance indicators may be expressed either in qualitative or quantitative form or in both. Quantitative indicators are auditable and are more authentic information to rely upon. Qualitative indicators may be complementary to present a complete picture of an organisation’s social, economic and environmental performance. In a highly complex situation, where it is not possible to identify or measure quantitative indicators that capture the organisation’s contribution – positive or negative to social, economic and environmental performance, qualitative information may be the most appropriate one. The details of sustainability performance indicators based on performance category are presented in Exhibit-I below.

**Exhibit-I. Sustainability Performance Indicators**

<table>
<thead>
<tr>
<th>S.I</th>
<th>Category</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Social:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Labour practices and decent work</td>
<td>Employment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Labour and management relation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Health and safety</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Training Education</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Diversity &amp; Opportunity</td>
</tr>
<tr>
<td></td>
<td>(ii) Human rights</td>
<td>Strategy and management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non-discrimination</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Collective bargaining</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Child Labour</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Forced and compulsory labour</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Disciplinary practices</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Security practices</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Indigenous rights</td>
</tr>
<tr>
<td></td>
<td>Society</td>
<td>Community</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bribery and corruption</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Political contribution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Competition and pricing</td>
</tr>
<tr>
<td></td>
<td>Product responsibility</td>
<td>Customer health and safety</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Product and services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Advertising</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Respect of privacy</td>
</tr>
</tbody>
</table>
Managerial Relevance

The sustainability reporting for accounting needs to be extended as a pragmatic imperative by moving beyond the procedural tasks designed to emphasize report preparation, information verification and disclosure and towards behavioral change within corporations, such that performance is improved (Schaltegger & Wagner, 2006). Moreover, the sustainability reporting can help the organisation improve its performance and drive towards innovative sustainability solutions. Sustainability is a broad concept that requires strategic assessment, interpretation and application. It cannot be quickly or temporarily addressed. It requires an organisation to strategically and systematically rethink what it does, and how it delivers products and services, like integration within all functional areas of management and activities through strategy, planning, operations, supply-chain, finance, HR, facilities management, projects, corporate reporting, etc.

In this context, sustainability reporting for accounting remains at an early stage of development and at present is still more of a buzz word than a well-defined approach. A further pragmatic challenge for research is the need to provide a framework for and evidence about measurement and reporting which balances the need for integration of the variety in information about sustainability with the differentiated unitary information effects between the dimensions of sustainable development at various corporate management levels and for various management functions.

Researchers need to recognize that to fall short of a convincing conceptualization will leave sustainability reporting for accounting as abroad umbrella term, with little practical usefulness. Finally, the tasks for applied research, development and training are: derecognize and accept the limited function of accounting information and the need for its serviceable information in business; to capitalize on the specific guidance for mangers offered by sustainability accounting; and to conceptualise an acceptable proportionality in sustainability challenges to business and to independently research links between this proportionality and the mindsets, actions, attitudes and behaviours of managers, given the predetermined policy goal of sustainable society. Of course, the debate remains open to those with a philosophical bent, to challenge this goal and the whole edifice constructed on the premise of sustainability, its operationalisation and its accountings.

CONCLUDING REMARKS

In this paper, an honest attempt has been made to discuss the social, economic and environmental aspects of business and looking for possible ways how to report all those factors and their interconnections. It is true that reported information would not to be complete without the disclosure
of entity’s policy, its approaches to recognizing and reporting on particular elements, its methods of measurement, presentation and reconciliation of changes between the beginning and the end of the current period and last but not least, its resorted strategy and tactics concerning its future development. Such information is common, by IFRS required part of financial information in annual reports. In conventional accounting such information concentrates only on economic information. If the information about social and environmental dimensions of a business need to be included in an annual report and connect these information with economic information, the information in the same structure as the information about economic dimension need to be disclosed. The user of accounting information can, therefore, have a complete, multidimensional view of the present situation, the future development of an entity, its future opportunities and risks as well.

Sustainability reporting requires interpretation and application – it is not adding a GRI index to the back of an annual report! Sustainability reporting is not about producing a report – the process can drive progress with sustainability and innovation in many areas Sustainability needs to be integrated throughout all areas of an organisation to be effective and maximize value.

REFERENCES

1. Accounting for Sustainability, Guidance for Higher Education Institutions (2003), prepared by Sara Parkin OBE, Dr Andy Johnston, Heloise Buckland, Fiona Brookes, Elizabeth White