

# Taking sustainability reporting to the next level

Accountancy Ireland  
Oct 03, 2017

*Interest in accounting for sustainability at sector level is growing as the field evolves. In this article, we consider the key questions – what, how and why.*

Social and environmental accounting – and more recently, sustainability accounting – is a well-established concept with an increasing number of organisations, including Irish companies such as CRH, Smurfit Kappa and Greencore, publishing a sustainability report alongside their annual report. There is also a growing level of interest in extending sustainability reporting beyond individual companies to a sector or industry level (i.e. multiple organisations reporting). Given that sustainability often involves complex global issues which require collaboration between companies and engagement with a variety of stakeholders, reporting in this way is potentially more appropriate and useful than single company reporting.

The most significant new development in industry level reporting originated in Ireland. In 2015, Bord Bia published its first Origin Green Sustainability Report – a 115-page account of social and environmental impacts in the Irish food and drink industry. The Origin Green programme represents the first attempt globally to account for sustainability at an industry level. The programme offers a new way of conceptualising sustainability accounting, with the potential to calculate the cumulative impact of multiple organisations on society and the environment. It is a significant step forward in the field, with the opportunity for innovative conceptual and practitioner work.

This article introduces the why, what and how of accounting for sustainability at a sectoral level. We first explore the rationale behind multiple organisation reporting, highlighting the ecological challenges of sustainability and the increasing regulatory issues facing practitioners in this area. We then consider what accounting for sustainability at sector level might look like, exploring the emerging guidelines from bodies such as the European Union (EU) and United Nations (UN). In section four, we take a closer look at Bord Bia's Origin Green programme and finally, we consider the opportunities and challenges for practitioners interested in engaging with this emerging area of accounting.

## Why engage in sector level sustainability reporting?

In a dynamic regulatory environment, it is increasingly important for accounting professionals to engage with social and environmental issues. From full year 2017,

the new EU Non-Financial Reporting Directive will make social and environmental reporting compulsory for public interest entities with more than 500 employees. 90% of the top global 250 companies now publish an annual standalone report and the idea of integrated reporting, which asks the organisation to report on its interactions with natural and social capital, is also gaining momentum.

The concept of sustainability brings together social and environmental concerns. Sustainable development refers to the development of a just, fair, safe, resilient and equal society while remaining within ecological limits. The Sustainable Development Goals, launched by the UN in 2015, offer a blueprint for how society can develop in this way. Both business and accounting can play a significant role in achieving these goals.

The significant ecological challenges of sustainability mean that it must be engaged with at the level of multiple organisations. Scientists have recently identified nine specific planetary boundaries – including climate change, ozone depletion and ocean acidification – beyond which a safe operating space for humanity cannot be guaranteed. To calculate the impact of business processes on planetary boundaries, the cumulative effect of multiple organisations must be taken into account. However, sustainability accounting and reporting has thus far focused on the single entity level, with few studies on accounting for sustainability at supply chain or sectoral level.

### What do the emerging regulations and guidelines look like?

A number of well-established guidelines exist for single entity sustainability reporting such as the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines, the International Organisation for Standardisation Guidance on Social Responsibility (ISO 26000) and the industry-specific guidance offered by the Sustainability Accounting & Standards Board (SASB). However, these guidelines typically do not consider what happens beyond the boundaries of the focal organisation (within the supply chain or the industry as a whole, for example) and thus cannot help us with multiple organisation sustainability reporting.

Accounting for sustainability at a sectoral level will require engagement and co-operation from actors at each stage of the supply chain. The complex and resource-intensive nature of such a task is arguably why no established guidelines exist for multiple organisation sustainability reporting. However, there are several ongoing projects exploring this area, as summarised in Table 1.

The EU's Organisation Environmental Footprint is an ongoing project that forms part of the EU's work on sustainable consumption and production, which emphasises a sectoral approach to sustainability. The pilot phase of the project, which also looked at Product Environmental Footprint for products as diverse as IT equipment, footwear and dairy, ran from 2013 to 2016 and covered two sectors, retail and copper production.

The EU's draft guidelines for measuring Organisation Environmental Footprint in the retail sector define "system boundaries", which extend beyond the typical single entity boundary. The EU suggests that the organisation "shall" take account of its upstream (supplier) activities and "should" take account of downstream (customer) activities. The EU has provided an Excel spreadsheet designed for data collection in relation to 137 indicators across the retailer's factories, retail places, distributors and support services.

There is a wide range of indicators, including some that arguably do not have a substantial relationship ("are vegetarian meals suggested in the employee canteen") or direct relationship ("number of employees at each site") with sustainability. They also cover some important impacts at the processing, retail and transport stages of the supply chain such as "refrigerant gasses – annual loss" or "fraction of consumers coming by car".

The System of Environmental Economic Accounting (SEEA) is an ongoing project by the United Nations Statistics Division (UNSD). It is based on the premise of national environmental-economic accounts, which calculate a country's stocks and changes in environmental assets. The primary focus of the project is on water and energy, but the UNSD also published a consultation document in 2016 related to SEEA for agriculture, forestry and fisheries. Two types of accounts are proposed – asset and physical flow accounts for resources such as water, energy and land, and groups of agricultural assets such as livestock or crops, for example. Sector level reports are drawn from the accounts to show economic and environmental variables, such as production quantity and greenhouse gases (GHG) emissions respectively.

The Natural Capital Coalition (NCC) is an international collaboration between almost 250 organisations including business, academia, non-governmental organisations (NGOs), policy-makers and standard setters including the Institute of Chartered Accountants in England and Wales (ICAEW) and the GRI. The NCC was created with the aim of integrating natural capital into business decision-making. Natural capital refers to the "stocks" of natural resources (water, air, plants or soil, for example) on which a business impacts or is dependent on. The NCC has developed

the Natural Capital Protocol, a framework intended to be complementary to other reporting approaches, which allows the organisation to integrate natural capital into business decision-making. The protocol asks organisations to “identify, measure and value their impacts and dependencies on natural capital”.

The scope of the Natural Capital Protocol covers the full life-cycle of a product, with organisations asked to account for upstream activities, direct operations and downstream activities including purchase, use and disposal of products. In this way, the protocol offers a potential framework for accounting for sustainability at a sectoral level.

The NCC has also created detailed sector guidance for the food and beverage and apparel sectors, including practical examples of risks and opportunities across the P&L, and they welcome any organisations interested in developing further sector-specific guides. Our analysis of emerging guidelines suggests that there are several projects in progress which take different approaches, both in method and content, to accounting for sustainability at the level of multiple organisations. There is scope for practitioners to engage with the evolution of these existing projects or, as Bord Bia has done, take a leadership position and develop their own reporting framework.

### How is sector level reporting manifesting in practice?

Origin Green is Bord Bia’s national sustainability programme for the Irish food and drink industry. The programme aims to lower the industry’s carbon footprint and has required Bord Bia to form partnerships with farmers, food and drink manufacturers and, more recently, retail and food service organisations.

The initial impetus for Origin Green was a piece of research by Bord Bia in the late 2000s, which suggested that trade customers – for example, large corporations such as Unilever or Danone – were increasingly engaged with sustainability in the agri-food supply chain. In 2012, working with the Carbon Trust, Bord Bia began adding carbon assessment to its existing quality assurance programme for beef and dairy farms. This has allowed for the calculation of CO<sub>2</sub> emissions per kilogram of beef and dairy produced, and the assessment is currently being rolled out to other products including lamb, poultry and pork.

In 2011, Bord Bia began working with manufacturing companies in the industry to develop a sustainability charter based on global best practice at single entity level. Companies applied to become verified members of the Origin Green programme, a process that involves setting targets in areas defined by Bord Bia such as water, energy and social sustainability; multiple reports to Bord Bia; and an independent

audit by SGS. As of January 2017, there are 220 verified Origin Green members accounting for 95% of production in the sector. In 2016, Bord Bia began to work with retail and food service organisations, and now have four verified members at this stage of the supply chain. Future plans include engagement with consumers and with food waste issues, along with continually developing the industry programme and targets.

Accounting and reporting for Origin Green is a complex process. Several departments within Bord Bia are involved including the discrete Origin Green team, QA and marketing. Most complicated is the process of bringing together data at the manufacturing, retail and food services stages of the supply chain with numerous bodies involved in the development of metrics and in supporting Origin Green members and prospective members. The active role adopted by Bord Bia in this regard suggests that accounting for sustainability at a sector level may require such a body to manage and negotiate the process.

## Conclusion

Our brief look at the possibilities of sector level sustainability reporting suggest that it is a significant emerging area of accounting with many opportunities for practitioners to take a leadership role, as Bord Bia has done, in developing the field. Through Origin Green, Bord Bia has developed a branding strategy for the agri-food industry with substantive data and processes behind it, giving Ireland an international leadership position in this area. This has allowed both Bord Bia and the Origin Green member companies to validate the industry's environmental and social performance with trade customers worldwide.

Finally, there are some potential challenges that practitioners may wish to consider as the protocols for sector level sustainability reporting develop:

- Confidentiality: with multiple organisations – and sometimes competitors – involved, confidentiality of data is crucial to reporting at a sector level;
- Resources: much of Origin Green is funded by Bord Bia, with help from other State agencies in terms of advice and support for member companies. Engaging with sustainability can also be expensive for smaller member companies; and
- Measuring sustainability: as discussed, there are no defined guidelines for sector level sustainability reporting or for measuring sustainability at a multiple organisation level. The emerging models and frameworks we have identified in this article may prove useful to practitioners wishing to explore this area.

There will be other interesting challenges and opportunities to consider as this field develops.

*This research project was funded by the Chartered Accountants Ireland Educational Trust.*

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