Environmental Reporting and Accounting
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7.2.1 Introduction to the issues
Environmental accounting and reporting is not a single, tidy and coherent area of activity. It comprises a number of quite different strands and, for the purposes of this chapter, we will think of these strands as being:

- the environmental impact on financial statements and auditing (financial accounting) - section 7.2.2;
- accounting in support of environmental management (management accounting) - section 7.2.3;
- environmental reporting - section 7.2.4;
- social reporting, GRI and towards the 'triple bottom line' - section 7.2.5;
- accounting and reporting for sustainable development and sustainability - section 7.2.6.

The first two of these strands principally involves interaction between the environmental manager and the accountants in the organisation. This interaction may be of the form of the accountants (or auditors) coming to you asking for your advice and help - as would usually be the case with 'financial accounting'. Or it may be that you are trying to get the accountants to work in a way which helps you more - as will be the case with 'management accounting'. The next two strands refer to the increasingly high profile activity of reporting to external stakeholders. Environmental reporting has had a very successful, if relatively short, history but is now usually associated as part of 'environmental and social' or, increasingly, 'triple bottom line' reporting. Finally, there are the more experimental - though no less urgent - moves towards accounting and reporting for sustainability.

7.2.2 Financial statements, financial auditing, and environmental issues
Virtually all organisations are required to produce some form of financial statements on a regular basis. In many cases, these statements are subject to extensive regulation and checking. This is at its most obvious in the case of companies - especially large companies - whose financial statements are governed by both Companies Acts and financial reporting standards. They are also subject to statutory audit[1]. These statements (which include a profit and loss account - sometimes called an income statement - and a balance sheet) are typically produced as part of the organisation's annual report - a document primarily intended for shareholders.

Historically, there has been no requirement to separately recognise environmental issues of any sort in financial statements and while this is still the case in most countries (including the UK) there is slow progress towards some limited acknowledgement of such matters as impairment of assets and environmental liabilities[2]. The pace in the area has been set by the USA. Since 1980 the States has had, what is colloquially known as 'Superfund' - a major set of regulations which require that contaminated land (see section 4.6) be remediated by the owners and/or the responsible parties. The potential liabilities this imposes on, in particular, companies can still, even now, only be estimated but they are probably enough to force a great many companies into receivership.

The crucial thing to recognise in this area is that the financial statements have no intrinsic interest in the environment as such. The financial statements only recognise matters which will have a material financial impact on the organisation. (The impact must be of sufficiently large financial size to alter the economic story told by the financial statements. The environmental materiality is of no consequence here). In practice the impact of environmental issues will typically play out through changes in the market for ones products, changes from suppliers and/or - and most significantly - changes in legislation (as with Superfund). And so the financial accountants - and, more importantly, the financial auditors - will be looking out for environmental (typically legal or regulatory) changes that will, for example, prevent the sale of goods in stock, will make products obsolete, will require major capital expenditure to meet consent levels and so forth. On finding such potential financial hazards, the accountants or the auditors will come to the environmental manager looking for guidance and assistance in dealing with the issue and limiting its financial impact. This is something a good environmental management system would typically have spotted anyway and so, in practice, apart from an annual visit from the auditors, this area is unlikely to have a big impact on environmental management practice in the near future[3].

Much more significant is the interplay between the EMS and the management accountants.

7.2.3 What accounting can do for environmental management
A crucial factor in determining the success or otherwise of an EMS will be the extent to which it articulates with and is informed by the management accounting system of the organisation. At a very crude level one can think of management accounting as the system which identifies, tracks and offers alternatives for the financial manifestations and consequences of the activities and aspirations of the organisation. More prosaically, everything from strategic possibilities through to budgeting, performance appraisal and capital expenditure appraisal need to be explored and justified in, ultimately, financial terms. (The more pressing the financial control in the organisation, the more this will be the case). The EMS will have to justify its existence; the environmental management department (if there is one), will have a budget; and the case for the new scrubbers which are needed to bring the organisation back into line with consent levels will have to be financially justified. Increasingly, every action must be explored through the "business case" - which, at its crudest level means "will it make us - or stop us losing - money?". No environmental manager who ignores the financial exigencies of the business will make much progress. However, the successful environmental manager will work with the grain of the organisation and will make the economics work for her or him. That is, the environmental manager should be constantly searching for, what are known as, the 'win-win scenarios' and working with the accountants and the accounting system to make the best environmental management also...
in the best economic interests of the organisation.

Win-Win Scenarios:
The simplest examples of win-win scenarios are in aspects of the business where a reduction in usage of a resource, for example, reduces costs and reduces environmental impact. Reductions in energy usage or waste produced (see sections 8.3 and 4.5) are the most obvious examples of this. But any reduction in resource use - either on a per unit (efficiency) or a total (ecological footprint - see section 2.3) basis has this potential. The difficulty, however, is that not all accounting systems will separately identify these costs and so the financial savings may not be obvious. Ensuring that the accountants amend the system to track and identify such numbers can often be the key to exploiting win-win potential.

Hidden Costs:
This becomes even more important when it comes to many of the existing environmentally-related costs which are currently buried in overheads. Safety costs, emergency procedures, costs of dealing with the regulators, and so on are important costs that are essential to any organisation. They are not, however, typically identified separately and are not, therefore, typically identified as needing control. Moreover, these sorts of costs, although critical to the projects and processes to which they relate are often not allocated to those projects or processes. Such omissions can have a considerable effect on both the actual and the perceived viability of such activities.

Exploiting Uncertainty
More subtle win-win situations can arise as a result of the uncertainties inherent in performance and accounting measurement. So much of short-term (e.g. monthly or even yearly) performance assessment depends upon assumptions built into the longer term decisions about the future. Thus, for example, scenario planning and, most especially, capital expenditure and new project decisions both involve considerable uncertainty about the future and have a direct impact on current organisational activity. The trick for the environmental manager is to exploit this uncertainty in order to encourage the organisation to adopt the more environmentally benign options. Key to this can often be changes to the performance appraisal system which can be used to redirect managers’ behaviour away from environmentally malign - but (apparently) economically attractive - activities. The rub is that in a great many organisations, short term financial exigencies will normally dominate decision-making. Such exigencies can often be in conflict with longer term environmental, social and, indeed, often, economic desiderata. Careful management and exploitation of the doubts and uncertainties embedded in the measurement and accounting system can work to lessen the extent of such conflict.

7.2.4 Environmental reporting
Environmental reporting, as we currently know it, emerged in the early 1990s. Companies such as Norsk Hydro, BA, Noranda and BSO/Origin produced innovative, stand-alone, voluntary environmental reports that have pretty much set the standard ever since. Since that time, environmental reporting has not only grown as a voluntary activity by (mainly) companies[4] but is increasingly a mandatory issue[5]. The prospect of British and/or pan-European legislation to require environmental reports by large organisations remains a distinct possibility.

Environmental reporting can be thought of as communicating an accurate, although much simplified, overview of the organisation's environmental interactions to stakeholders of the organisation. It is most likely to undertake this communication: in the annual report (in which case it is likely to be very simplified); in a standalone environmental (or other - see below) report; on the company's website; or by a combination of these methods.

The current state-of-the-art in environmental reporting sits between two poles. On the one hand the audiences for the report (shareholders, the City, employees, other stakeholders, NGOs, the press, and so on) will not tolerate anything which looks too much like a "greenwash". A bland, glossy, publication which is heavy on beautiful pictures and low on data, which paints a rosy glow around the company is likely to do more harm than good. No organisation is squeaky clean and a report which claims otherwise will invite unwelcome (but well-deserved) attention. On the other hand, the activity of environmental reporting is largely voluntary and no organisation will willingly subject itself to the painful rigour of a full, complete and honest accountability statement. Consequently, most reports are substantial and honest, but partial and selective.

There have been many guidelines issued on how to construct an environmental report and what such a report should contain[6]. These guidelines show no sign of easing off - even though they mostly say the same basic things. A credible environmental report must contain (or, at a minimum, reference):

- the organisation's policy statement;
- identification of principal environmental impacts;
- plans, structure and organisation - who is responsible?
- status and position of the EMS, levels of accreditation etc, (typically ISO14000 and EMAS);
- detailed data on targets and performance against those targets in key areas such as water, land, air, energy and other resource use;
- analysis of performance and plans for continual improvement;
- links to sustainable development (see below);
- probably an attestation (audit) statement.

What such a report does, in effect, is emphasise the environmental management procedures in the organisation and pay particular attention to eco-efficiency issues. What it does not do is give a complete outline of the organisation's environmental interactions. For an environmental report to approach that ideal it would also have to include data on:

- the organisation's eco-balance (a concept pioneered by German and Austrian researchers and organisations) - at least in outline;
- the organisation's ecological footprint and its change over time;
The ACCA reporting awards schemes have been in place since the early 1990s. They began as a UK-only, environment-only scheme and so on.

Such complete environmental reports are very scarce indeed but, perhaps surprisingly, reporters are rarely chastised for failing to address these more complex and testing issues. However, continual monitoring of the environmental agenda is essential - for example the last few years saw the issue of climate change, green house gas emissions and carbon equivalents rising in importance and becoming an essential component of substantial environmental reports.

At the heart of an environmental report - especially a voluntary environmental report - is the question "why report?". There are many reasons why an organisation might report and it certainly makes life simpler if an organisation can work out in advance what its motives and goals actually are. Sadly, it remains rare - and will remain rare until substantive regulation requires it - that an organisation reports because it believes itself to be accountable and wishes to discharge that accountability[7]. Far more likely is that the organisation is reporting for a complex set of reasons that include the desire to:

- educate stakeholders
- explain the organisation’s achievements;
- indicate to potential regulators that legislation is unnecessary;
- persuade stakeholders that the organisation is "walking the talk" - whether or not this is the case;
- counter environmentalists’ claims;
- legitimise the industry;
- express the personal commitment by the board;
- signal to financial stakeholders that environmental risk is managed sensibly;
- provide an external focus for the environmental management systems;
- ....... and so on.

A well balanced, substantive report which is reaching towards completeness can have value - to both society and the organisation itself - in all of these areas. However, a key factor in determining how to manifest the organisation’s objectives vis-a-vis the environmental report is to ensure that the principal stakeholders to whom the report is addressed are properly understood[8].

Whilst all the organisation's stakeholders are likely to have an environmental interest in the organisation (although not all may want an environmental report), the probability is that their interests will differ. For example:

- financial stakeholders (shareholders, bankers etc.) may be concerned with environmental risks as well as with the management of environmental issues as an indicator of management competence. (This audience will typically be best addressed through the annual report not through a standalone report);
- customers may be concerned by ethical purchasing considerations or with the contents of their supply chain;
- employees may be looking to defend or take pride in their employer - as well as wanting reassurance that health and safety issues are seen as paramount;
- local communities may be concerned by local hazards and whether or not the organisation is acting as a good neighbour;
- suppliers may be concerned with responsible care; NGOs with compliance with ethical codes; ... and so on.

One of the principal ways through which the organisation will gain an understanding of what stakeholders want from the organisation, what information they require and how they react to reporting and other initiatives from the organisation is through "stakeholder dialogue". Formal and informal consultation, market research, focus groups, community advisory panels are just some of the ways in which this can be achieved and, consequently, the reporting (and, indeed, other environmental initiatives) more carefully and efficiently focused. Such mechanisms (as long as they are not treated either cynically or as a glamorous version of market research) try to bring the concerns of the stakeholder and the organisation closer together - where that is possible - and to help each other understand their differences - where it is not. Then environmental (and social etc) reporting becomes just one important part in the whole reporting and communication strategy of the organisation.

For the organisation keen to develop a credible environmental reporting strategy but not intent upon pushing the envelope too far, there is no shortage of guidance. But rather than wading through endless and largely repetitive guidelines, the GRI Guidelines (see next section) are as likely as any to illustrate the leading edge of reporting whilst current best practice can be very confidently gauged through three major sources: the KPMG Annual Survey(s) of Reporting, the UNEP/SustainAbility project monitoring world wide reporting, and the ACCA reporting awards scheme.

The KPMG report has been produced in one form or another for several years now. Its focus (e.g. environmental reporting, "sustainability" reporting etc) and its coverage (e.g. largest world wide companies) has developed over the years but the report provides as good as any snap shot of who is reporting what globally. (See the KPMG references in the Bibliography and Further Reading at the end of this chapter)

The alliance of the United Nations Environment Programme and the consultancy SustainAbility has resulted in the Engaging Stakeholders project. This project produces periodic reports on such matters as: stakeholder views on reporting; experiences of companies with reporting; analysis of leading edge reporters; industry trends plus predictions as to future directions. From these reports one is not only taking the pulse in environmental (and related) reporting but is receiving detailed guidance on what makes a good report together with a distillation of widespread experience in reporting. (See the SustainAbility references in the Bibliography and Further Reading at the end of this chapter).

The ACCA reporting awards schemes have been in place since the early 1990s. They began as a UK-only, environment-only scheme
and have mushroomed. The UK scheme covers environmental, social and "sustainability" reporting and there are now commensurate schemes all over the world - including a pan-European awards scheme. The ACCA awards criteria have evolved over time and, in effect, reflect the changing patterns of - and attitudes to - reporting. These criteria are published from time to time. More usefully for the reporting environmental manager, the ACCA also publish a detailed judges report which itemises the strengths and weaknesses of the short listed reports. These judges reports are also, very usefully, illustrated by examples of good (and not so good) practice from the short listed reports. These reports can then be obtained (and studied) by interested parties. In addition ACCA also publish relevant research reports, re-publish guidelines and produce a periodic e-magazine on accounting and sustainability which covers all developments in the field. Much of this experience and output has been condensed on to the ACCA and Sustainability CD ROM published in 2002. (See the Association of Chartered Certified Accountants (ACCA) references in the Bibliography and Further Reading at the end of this chapter).

In addition to providing excellent guidance on approaches to reporting and the current state of the art these sources will keep you abreast of changes in attitude and focus. The most important of recent years has been the move beyond purely environmental reporting, via social reporting towards "triple bottom line" reporting and, as it is sometimes inaccurately called, "sustainability" reporting.

7.2.5 Social Reporting, the GRI and towards the "triple bottom line"

The notion of the "triple bottom line" (TBL hereafter) was coined by John Elkington of SustainAbility. It is an effective notion and suggests that any organisation must be operated to produce positive economic, social and environmental benefits. The importance of the concept lies in the realisation that it is probably impossible for any organisation to produce a net economic and social and environmental benefit from its activities and virtually certainly true that no commercial organisation can give all three elements equal weight (the economic will always dominate). But the TBL focuses the mind (or it least it should do so) on the trade-offs that every organisation makes in pursuing economic returns. The move towards triple bottom line reporting was intended to make explicit the "beyond the financial" aspects of organisational behaviour and in so doing to communicate to stakeholders the extent to which the organisation was coping with that trade-off. Thus, it was envisaged, organisations would produce full financial, social and environmental accounts of their activities and, thereby, indicate the trade-offs, difficulties and choices made, (the social and/or environmental eggs broken in making the profitable omelette).

Most organisations already produce full - perhaps too full - financial reports. We now know, as we have seen above, what a full environmental report (based around an eco-balance and estimates of ecological footprint) might look like. The upsurge of social reporting in the early 1990s produced a range of experimentation with social reporting. However, like environmental reporting before it, much of the really path-breaking reports were the early ones. Most notably, the early reports produced by: the small fair trade company Traidcraft plc, its charitable foundation Traidcraft Exchange; the Body Shop; and, later, the Co-operative Bank remain amongst the most complete such reports.

A complete social report involves more complex notions than does a complete environmental report. Such a report might comprise (and the best of the Traidcraft reports did comprise) inter alia:

- values and mission statements;
- identification of stakeholders - the "stakeholder map";
- explanation of how selected stakeholders have been prioritised;
- for each stakeholder group:
  - descriptive information about the organisation-stakeholder relationship
  - legal and quasi-legal standards and the organisation's performance against those standards
  - the organisation's performance against its own values and standards;
  - the "voice" of the stakeholders;
- plans and intentions based on these data;
- an attestation (audit) statement.

The idea of a triple bottom line is certainly, therefore, feasible. But for this to become a reality requires that organisations produce detailed and comprehensive reports in sound and inclusive ways. In the absence of regulation it seems very unlikely that many organisations will do so. This point is crucial because with few exceptions (again consult the ACCA reporting awards) there is a considerable discussion about TBL reporting when, in fact, virtually nobody is doing TBL reporting. This is dishonest and misleading and certainly does not advance the case for the reliability of voluntary responsibility and accountability. Put more simply, reporting has developed since about 1990:

- from reporting about the environment (correctly called "environmental reporting")
- through reporting on aspects of social interaction (often correctly called "social reporting" or rather less accurately "social responsibility reporting")
- to reporting about the environment and some aspects of social interaction (incorrectly "called TBL reporting");
- which has been repackaged as "sustainability reporting" - which is wholly inaccurate. (As we consider briefly below, TBL reporting is only a dim relation of sustainability reporting)

The issue of terminology is crucial because there is no point in talking about a TBL reporting strategy when, in fact, one is talking about something else. This confusion has, to an extent and understandably, been increased by the Global Reporting Initiative (GRI).

The GRI is a voluntary, cross-sectoral initiative involving both companies and NGOs. Established in 1997 by the Coalition for Environmentally Responsible Economies as a successful attempt to combine all the disparate efforts that were going into voluntary reporting, GRI's primary task is to produce a single set of guidelines that would slowly take organisations' reporting towards sustainability reporting. These guidelines (which are updated as needed) have effectively reified the (incomplete) environmental and social reporting practices that we have discussed above. They have done this in order to (first) bring more organisations into the reporting experience and (second) to then have a base from which to steadily ratchet up the standards of reporting. Certainly at the time of writing, although
the GRI remains the front runner in terms of widespread acceptance of reporting guidelines and although they have set reasonable standards in environmental reporting, they have yet to develop any serious standards in social reporting and are, therefore, still someway off decent TBL reporting. They are, despite the title of their guidelines, a very long way off indeed from sustainability reporting.

7.2.6 Accounting and reporting for sustainability and sustainable development

Sustainability (see section 2.3) is, as we have seen, a complex and demanding notion. For an organisation to be contributing to sustainability it needs to be, somewhat simplistically perhaps, reducing its ecological footprint and increasing equality of access to environmental resources. Neither of these conditions is very likely for an organisation with commercial imperatives and the first will be unlikely for an organisation which is growing.

An account or report of sustainability - a "sustainability report" - should, presumably, allow one to assess the extent to which an organisation was contributing to or (more likely) reducing planetary sustainability. Certainly, the full social and environmental reports we have discussed above (but which are rare in practice) could not tell a reader whether or not an organisation was moving towards or away from sustainability. Whatever the label might say, "sustainability reports" are not about sustainability - or not yet anyway.

Experiments have been undertaken to try and work out how an account of an organisation's sustainability might be constructed. Progress is promising but slow but seems to confirm that few, if any, western organisations are currently sustainable. (For more detail see Gray and Bebbington, 2001, Chapter 14 and the ACCA (2002) CD-ROM). In essence, the problem is that companies are designed to grow (which will typically increase their ecological footprint) and to ensure that the wealthy (shareholders) as opposed to the poor (the excluded and those in emerging nations for example) earn a high return.

It seems likely that much more work will need to be done before organisations will voluntarily start reporting on their (un-)sustainability so a key factor for any organisation will be monitoring the developments in this debate. The ACCA website and publications as well as the UNEP/SustainAbility publications are the best source of information for this.

But it is as well to bear in mind that, whilst we are developing ways of thinking about sustainability at the organisation level (because that is where the power and decision making over resources currently lies), sustainability may not be accurately located at the organisational level. Sustainability is, first, a planetary concept and working out the relationship between planetary sustainability and an organisation's use of resources and its impacts on justice require a calculus far beyond our capacities. Secondly, sustainability is an eco-systems concept. Very few organisation are co-terminus with eco-systems. As the eco-systems cannot adapt to the shape of organisations it might be that organisations will have to adapt to the shape of eco-systems. All this suggests that the very best accounts of sustainability can only ever be broad approximations of organisational sustainability.

7.2.7 Conclusions

The environmental manager will have many occasions on which s/he interfaces with, comes up against, conflicts with the accounting systems of the organisation. Accountants and the accounting system will not always be the ally of the environmental manager and the EMS. However, a carefully developed understanding between the accountants and the environmental manager can bring major benefits to both - as well as to the organisation. It is not a natural relationship and so it will require effort to understand other, often quite different, points of view.

The organisation's environmental and social (and/or TBL or sustainability) reporting regime is less likely to involve the accountants to any great extent. A key part of the environmental manager's role will be monitoring developments in this rapidly changing arena. The organisation's own reporting strategy must make sense - to the organisation and to the stakeholders - and it must avoid the all too easy trap of taking too glib an approach to what are greatly complex and challenging matters. Monitoring the web sites give below should keep the organisation informed about the opportunities and challenges that face it in this difficult but exciting area.

Bibliography and Further Reading

Publications:

  [www.kpmg.com](http://www.kpmg.com)

Web Sites:
This form of audit should be distinguished from that discussed in section 6.3 for two reasons. First, it is statutory in nature, Second, this sort of audit is exclusively designed to express an opinion about whether or not the financial statements show a "true and fair view".

[2] In the EU the Commission Recommendation on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies (2001) has emphasised the need to integrate financial and environmental reporting. Mandatory environmental reporting already applies in some countries - both inside and outside Europe.

[3] Monitoring developments in this area should be relatively simple. Within Europe the Fédération des Experts Comptables Européens are as good a source as any (see references at the end of the Chapter).

[4] But it has remained a predominantly partial phenomenon and is dominated by the larger companies. The KPMG International Survey of Sustainability Reporting 2002 reports that nearly half of the top 250 in the Global Fortune 500 had produced such reports in the last 2-3 years.

[5] Countries with some mandatory requirement for environmental reporting include Denmark, Netherlands, Sweden, France, Australia and Korea.

[6] Of these it is probably the Global Reporting Initiative (GRI) that currently sets the pace. More of this in the next section.

[7] Accountability is principally about the rights that society has to information about the activities of an organisation. Such rights range from the extent to which the organisation has complied with law, the extent to which it has complied with its own standards and the extent to which it has improved (or more likely worsened) the potential sustainability of the planet. See later.

[8] This is doubly important because experience shows that an organisation is unlikely to receive much in the way of substantive feedback on their published environmental (and social) report. This is not because individuals and organisations are uninterested in the environmental activities of the organisation but rather because of time, effort, commitment and so on. It therefore behoves the reporting organisation to be pretty satisfied that the report is meeting their own intended aims.

[9] The "voices" of the stakeholders was a very significant initiative begun by New Economics Foundation in the Traidcraft report and developed in the Institute for Social and Ethical Accountability (ISEA) standards on social reporting and auditing - the AA1000 series.