SUSTAINABLE DEVELOPMENT AND ACCOUNTING

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ABSTRACT

The world has changed due to globalization and resulting interdependencies in economics and supply chains, advances in technology, rapid population growth and increasing global competition. There have also been changes in the quality, availability and price of resources, including water, food and energy. This change has political, social and commercial implications. Businesses are being forced to react to these changes in order to remain successful and, in many cases, are developing new business models that recognize the need to innovate and do more with less.

The need for a broader information set is clearly demonstrated by the small percentage of market value now explained by physical and financial assets - down to only 19% in 2009 from 83% in 1971. The remainder represents intangible factors, some of which are explained within financial statements, but many of which are not. One of several segments of information that have received increased attention is in the area of sustainable development. For all these segments, there needs to be a solution that involves a comprehensive and consistent reporting standard.

Sustainable Development

The concept of sustainable development did not surface until the publication of the Brundtland Commission report in 1987. The report was entitled "Our Common Future." The report defined sustainable development as "development which meets the needs of the present without compromising the ability of future generations to meet their own needs."

This development is built on three pillars: economic growth, ecological balance and social progress. It was always clear that if the sustainable development concept is to achieve its potential, it must be integrated into the planning and measurements systems of business enterprises.

The Need for a New Reporting System

The traditional reporting model was developed many years ago for an industrial world. Although it continues to play a valuable role with respect to stewardship of financial capital, it nonetheless focuses on a relatively narrow account of historical financial performance and of the value creation process.

As business has become more complex and gaps in traditional reporting have become prominent, new reporting requirements have been added through a patchwork of laws, regulations, standards, codes, guidance and stock exchange listing requirements. This has led to an increase in the information provided through:

- longer and more complex financial reports and management commentary (MD&A);
- increased reporting on governance and remuneration; and
- standalone sustainability reporting which has evolved rapidly over the past decade.

Frustration with existing financial reports includes the following concerns.

- The key features of financial performance are often buried in voluminous financial statements. As a result, a number of ‘workarounds’ have emerged, including alternative financial performance measures such as ‘underlying profit’ and new financial reports such the ‘summary financial report.’
- Annual reports containing audited financial statements have become divorced from the time horizon and information requirements of capital markets.
- Sustainability reports seldom demonstrate the part that corporate social responsibility performance plays in the business strategy and value creation and are often not designed with the capital markets in mind.
- Narrative reporting lacks a common framework, so there is little consistency among businesses. The capital markets must compensate for this lack of consistency as best it can, but in doing so, the risk remains that the real story of business performance and prospects may not be fully understood.

Sustainability advocates have presented many proposals to deal with the lack of social and environmental disclosure. Some have been more successful than others.

Conclusion

Integrated Reporting combines financial and non-financial information with a forward-looking perspective that is designed to help readers understand all the components of business value – and how those components might by affected by future opportunities and exposures. Taken together, these characteristics mean that it can provide a more complete perspective on business performance and value, as well as on key sustainability measures.

The mismatch between current corporate reporting and business value has become increasingly apparent in the volatile business environment of the past decade. The focus on current year performance may go some way towards helping readers understand ‘business as usual,’ but it is not enough to provide a complete picture of long-term value. Integrated Reporting is a process to help produce a better reporting system; however, since there are many organizations which are involved in financial reporting and sustainability reporting, it may take time before they all agree on an acceptable framework which can be supported by all.