



Development of Sustainability Accounting Standards

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ABSTRACT

Sustainable development covers economic, social and environmental dimensions of human welfare. Nowadays, firms, governments and global society care about more than ever on sustainability issues, such as global warming, environmental pollution, life quality, income distribution differences, in short, better social, economic and environmental system. One of the most important elements of the sustainability is better sustainable accounting all the activities in the value chain management. Main aim of this study is to analyse the development process of sustainability accounting and sustainability accounting standards in order to contribute sustainable economic development by improving accounting standards.

Keywords: Sustainability, Accounting standards, Economic Development, Firm Performance

Sürdürülebilirlik Muhasebe Standartlarının Gelişimi¹

ÖZET

Sürdürülebilir kalkınma, insan refahının ekonomik, sosyal ve çevresel boyutlarını kapsamaktadır. Günümüzde, işletmeler, hükümetler ve küresel toplum, küresel ısınma, çevre kirliliği, yaşam kalitesi, gelir dağılımı farklılıkları gibi özetle daha iyi sosyal, ekonomik ve çevresel sistem gibi sürdürülebilirlik konularına her zamanlardan daha fazla önem göstermektedir. Sürdürülebilirliğin en önemli bileşenlerinden birisi, değer yaratım zincirindeki tüm faaliyetlerde daha iyi sürdürülebilirlik muhasebesi yapmaktır. Bu çalışmanın temel amacı, muhasebe standartlarının gelişimi ile sürdürülebilir ekonomik kalkınmaya katkı yapmak için sürdürülebilirlik muhasebesi ve standartlarının gelişim sürecini analiz etmektir.

Anahtar Kelimeler: Sürdürülebilirlik, Muhasebe Standartları, Ekonomik Gelişme, Firma Performansı

1. Introduction

It is vital to have better and sustainable natural resources for all the living creatures today and future in the world. However, it is not easy to allocate scarce resources appropriately and sustainable way as this requires not only appropriate methods, measures and calculations but also basic agreement among the different economics agents how to solve these problems.



“Sustainability calls for a decent standard of living for everyone today without compromising the needs of future generations” (UNWCED, 1987). Economic, social and environmental dimensions of human welfare are main parts of sustainable development. Global society including both public and private agents take care about more than ever on sustainability issues, such as global warming, environmental pollution, life quality, income distribution differences, in short, better social, economic and environmental system. One of the most important elements of the sustainability is better sustainable accounting all the activities in the value chain management. Sustainable accounting is evolved form of social and environmental accounting. Main aim of this study is to analyse the development process of sustainability accounting and sustainability accounting standards in order to contribute sustainable economic development by improving accounting standards.

2. Development of Sustainability Accounting Standards

As social and environmental issues raise concern over, sustainability accounting and reporting covering to the management and reporting of social and environmental issues has a increasing importance (Adams and Larrinaga onzález, (2007), Bebbington et al (2009), Bebbington (1997), Boiral (2013), Brown and Dillard, (2014), Burritt and Schaltegger, (2010), Gray (2006), Lodhiaa and Nadia (2014)). Increasing concerns about social and environmental resulted in the development of sustainability accounting and reporting. The attention of the Government institutions and corporations has increased social and environmental problems (see, Yazici and Yigit Sakar, 2011, Guloglu et al (2012), Guloglu and Saridogan (2013). Bovenberg and Heijdra (1998) stated that without government intervention, private agents fail to internalize adverse pollution externalities. Hence, environmental policy is often advocated on efficiency grounds. They also claimed that environmental taxes, which enhance efficiency by internalizing external effects, may be difficult to implement because of the associated intergenerational distributional effects

Although financial accounting covers some elements of non-financial and sustainability performance. However, accounting for non-financial assets or performance in financial terms has inherent limitations in the absence of robust markets or proper valuation techniques. Therefore, while environmental and social capitals can be conceptually understood and accounted for in terms of assets and liabilities, they cannot be accurately or adequately “priced,” either historically or marked to market, which is necessary for a proper financial accounting treatment. In addition, unlike financial capital, non-financial capitals associated with sustainability cannot always be reduced to a single fungible unit of measure, like a currency, that can be aggregated and accounted for as assets or liabilities (SASB, 2013)

The development of both sustainability accounting and reporting and international accounting standards also leads a new area which is Development of Sustainability Accounting Standards. *The purpose of sustainability accounting is 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– environmental, human and social – and corporate governance issues, which they rely upon for sustained, long-term value creation. Ultimately, the goal of sustainability accounting and disclosure is to inform development of an integrated business strategy for corporate management and assess sustainability risks and opportunities inherent to investment decisions. Sustainability*



accounting and disclosure is intended as a complement to financial accounting, such that financial information and sustainability information can be evaluated side by side and provide a complete view of a corporation's performance and value creation, both financial and non-financial, and across all forms of capital (SASB, 2013).

Table 1. Sustainability Criteria: Comparison of Criteria and Relative Dimension Weights Selected Industries

	Banking	Electric Utilities	Pharmaceuticals	
Economic Dimension				
Anti-crime policy/measures	●			industry-specific
Brand Management	●			industry-specific
Codes of Conduct/Compliance/Corruption & Bribery	●	●	●	general
Corporate Governance	●	●	●	general
Customer Relationship Management	●	●	●	industry-specific
Innovation Management			●	industry-specific
Market Opportunities		●		industry-specific
Marketing Practices			●	industry-specific
Price Risk Management		●		industry-specific
Research & Development			●	industry-specific
Risk & Crisis Management	●	●	●	general
Stakeholder Engagement	●			industry-specific
Scorecards/Measurement Systems		●		industry-specific
Total Economic Dimension Weight	38%	30%	40%	
Environmental Dimension				
Biodiversity		●		industry-specific
Business Opportunities Financial Services/Products	●			industry-specific
Business Risks Large Projects/Export Finance	●			industry-specific
Climate Change Governance	●			industry-specific
Climate Strategy		●	●	industry-specific
Electricity Generation		●		industry-specific
Environmental Footprint	●			industry-specific
Environmental Policy/Management System	●	●	●	general
Environmental Reporting	●	●	●	general
Operational Eco-Efficiency		●		industry-specific
Transmission & Distribution		●		industry-specific
Water-Related Risks		●		industry-specific
Total Environmental Dimension Weight	24%	35%	10%	
Social Dimension				
Addressing Cost Burden			●	industry-specific
Bioethics			●	industry-specific
Corporate Citizenship and Philanthropy	●	●	●	general
Controversial Issues, Dilemmas in lending/financing	●			industry-specific
Financial Inclusion/Capacity Building	●			industry-specific
Health Outcome Contribution			●	industry-specific
Human Capital Development	●	●	●	general
Labor Practice Indicators	●	●	●	general
Occupational Health & Safety	5%	4%	2%	industry-specific
Social Reporting	●	●	●	general
Stakeholder Engagement		●	●	industry-specific
Standards for Suppliers	●		●	industry-specific
Strategy to Improve Access to Drugs or Products			●	industry-specific
Talent Attraction & Retention	●	●	●	general
Total Social Dimension Weight	38%	30%	50%	

Source: RobecoSAM (2014), Measuring Intangibles ROBECOSAM's Corporate Sustainability Assessment Methodology, RobecoSAM,



Sustainability investing and reporting needs more information provided by financial analysis in order to keep sustainable development. RobecoSAM stated that material nonfinancial factors contribute to better informed investment decisions, the methodology focuses on long-term sustainability factors that are relevant to each industry, material to the company's financial performance and under-researched in conventional financial analysis. The Corporate Sustainability Assessment (CSA) has been developed by RobecoSAM's since 1999 for identifying companies that are better equipped to identify and respond to emerging opportunities and risks resulting from global sustainability trends. The CSA consists of an annual analysis of the sustainability performance of corporate sustainability by using a systematic methodology. RobecoSAM also evaluates the company's progress in implementing such strategies as well as the quality of its reporting on these issues. Therefore, the questions within each criterion are structured to capture and evaluate the elements (Table 1) (see, RobecoSAM, 2014).

As the economic and financial globalization has increased, multinational corporations and international investors need standardize rules and good quality financial information in order to efficient decision making. The accounting standards are vital to achieve standardize rules and good quality financial information. (Wagenhofer (2009), Barth, (2008), Benston et al (2006), Chen et al (2007)). For this reason, International Accounting Standards started to develop after post World War II. Financial Accounting Standards Boards (FASB) (2015) stated that *"Initial efforts focused on harmonization—reducing differences among the accounting principles used in major capital markets around the world. By the 1990s, the notion of harmonization was replaced by the concept of convergence—the development of a unified set of high-quality, international accounting standards that would be used in at least all major capital markets"*. FASB also explained the historical development of International Accounting Standards as follows:

- *The 1960s—Calls for International Standards and Some Early Steps*
- *The 1970s and 1980s—An International Standard-Setting Body Takes Root*
- *The 1990s—The FASB Formalizes and Expands its International Activities*
- *The 2000s—The Pace of Convergence Accelerates: Use of International Standards Grows Rapidly, the FASB and IASB Formally Collaborate, and the U.S. Explores Adopting International Accounting Standards*

More than ever before, in order to improve a better living environment, corporations and global society consider important not only financial indicators and issues but also social, economic and environmental sustainability indicators which is also referred to as 'triple bottom line' or 'sustainability' reporting by more comprehensive corporate sustainability reports. For this reason, Corporations and organizations take seriously care global economic, social and environmental problems and want to contribute to decreasing global economic, social and environmental problems and increasing global sustainable welfare and environmental conditions. For this reasons, corporations and organizations shape their policies and strategies and regularly publish sustainability reports by monitoring and considering their economic, environmental, social issues and performances. Under these circumstances, sustainability reporting is very important long term economic, social and economic development. (Elkington, (1997), Adams and Frost, (2008), Global Reporting Initiative (GRI), (2000, 2015a), Bennett and James (1998), Schaltegger and Burritt (2000), Parker (2005), ISEA,(1999), Parker (2000),

Guthrie and Parker, (1989), Frost and Wilmshurst, (2000), Ditz et al (1995).

Increasing attention on sustainability reporting by considering assists developments of standards of sustainability reporting and sustainability accounting. Main organizations of sustainability accounting and reporting guidance are as follows (GRI, 2015):

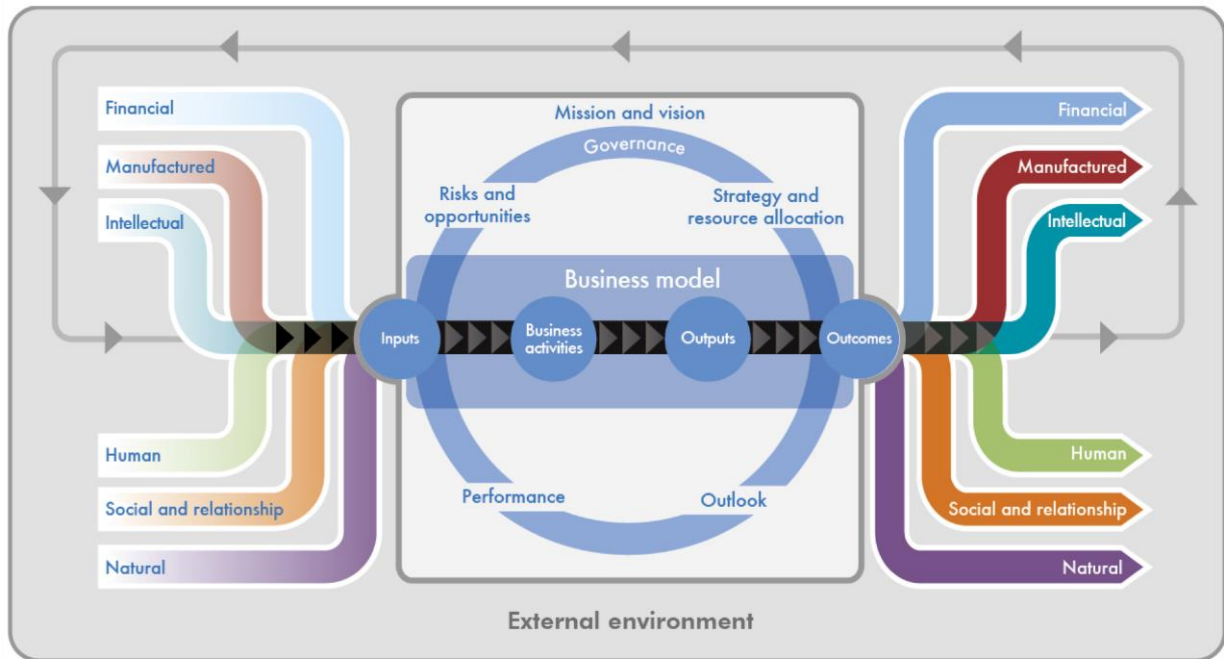


Fig. 1. The value creation process

Source: IRRC, 2013

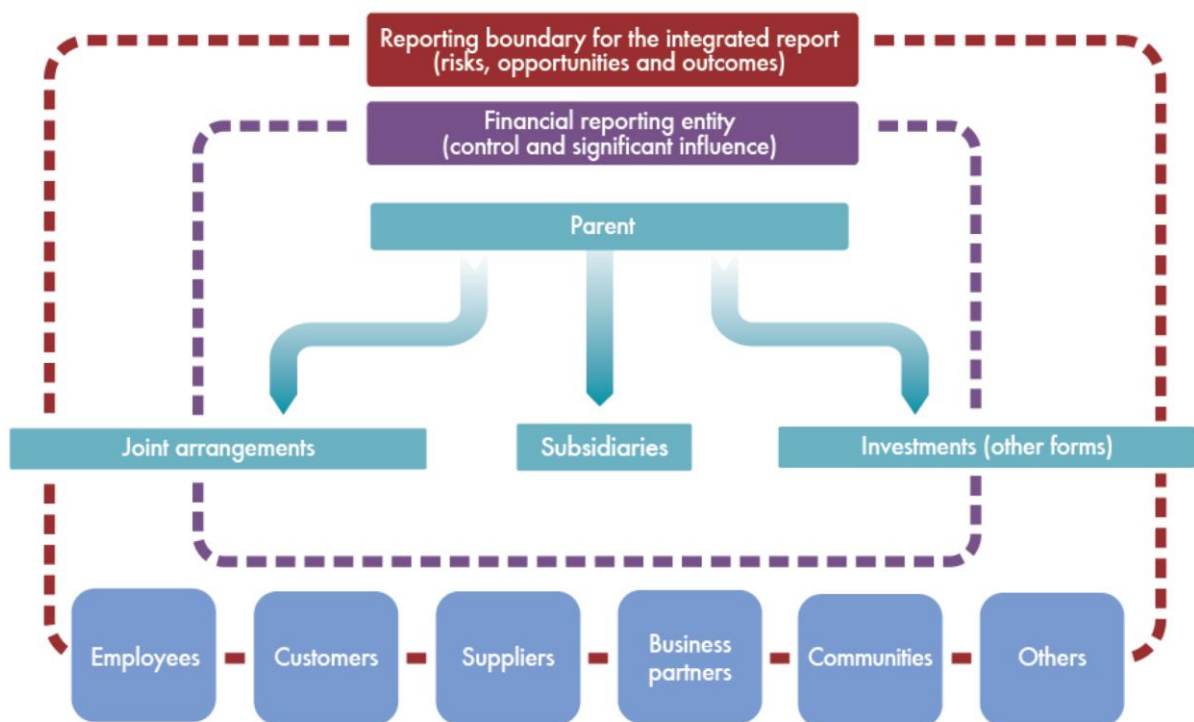


Fig. 2. Entities/Stakeholders Considered In Determining the Reporting Boundary

Source: IRRC, 2013



- *The Global Reporting Initiative (The GRI Sustainability Reporting Framework and Guidelines)*
- *The Organisation for Economic Co-operation and Development (OECD Guidelines for Multinational Enterprises)*
- *The United Nations Global Compact (the Communication on Progress)*
- *The International Organization for Standardization (ISO 26000, International Standard for social responsibility)*
- *The International Integrated Reporting Council (IIRC)*
- *The Sustainability Accounting Standards Board*

The Global Reporting Initiative has provided a comprehensive Sustainability Reporting Framework since 1999. The important element of the Framework is the Sustainability Reporting Guidelines. The GRI Sustainability Reporting Guidelines are subject to a process of incremental revision and updating and cover the following processes (The GRI, 2015b) :

- *Setting priorities for revision of the Guidelines*
- *Developing proposals for revision*
- *Public comment period*
- *Approval by the governance bodies*

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs, promoting communication about value creation on corporate reporting. The IIRC's mission is to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors. (IIRC, 2015). The IIRC's long term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by Integrated Reporting (<IR>) as the corporate reporting norm. The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as a force for financial stability and sustainability (IIRC, 2013).

An integrated report includes eight content elements which are organizational overview and external, environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook, basis of preparation and presentation and in doing so, takes account of general reporting guidance. The value creation process of *The IIRC's* is a process in which the financial, manufactured, intellectual, human, social and relationship and natural inputs are transformed into the financial, manufactured, intellectual, human, social and relationship and natural outputs by processing a business model consisting of different components and factors (see, Figure 1). *The value creation process is not static; regular review of each component and its interactions with other components, and a focus on the organization's outlook, lead to revision and refinement to improve all the components (IIRC, 2013).*

The purpose of looking beyond the financial reporting boundary is to identify risks, opportunities and outcomes that materially affect the organization's ability to create value. The entities/stakeholders within this portion of the reporting boundary are not related to the financial reporting entity by virtue of control or significant influence, but rather by the nature and proximity of the risks, opportunities and outcomes. Reporting boundary, key to the materiality determination process is the concept of the reporting boundary. Determining the boundary for an integrated report has two aspects, First, the financial reporting entity (i.e., the boundary used for financial reporting purposes) and second risks, opportunities and outcomes attributable to or associated with other entities/stakeholders beyond the financial reporting entity that have a significant effect on the ability of the financial reporting entity to create value. (see, Figure 2), (IIRC, 2013).

The purpose of the SASB Standards considers environmental, social and governance dimensions of a company's operation and performance. More specifically, it focuses on sustainability including both the management of a corporation's environmental and social impacts, as well as the management of environmental and social capitals necessary to create long-term value, also including the impact of environmental and social factors on innovation, business models, and corporate governance. The Sustainability Accounting Standards Board (SASB) provides *sustainability accounting standards for use by publicly-listed corporations in the U.S. in disclosing material sustainability issues for the benefit of investors and the public.*

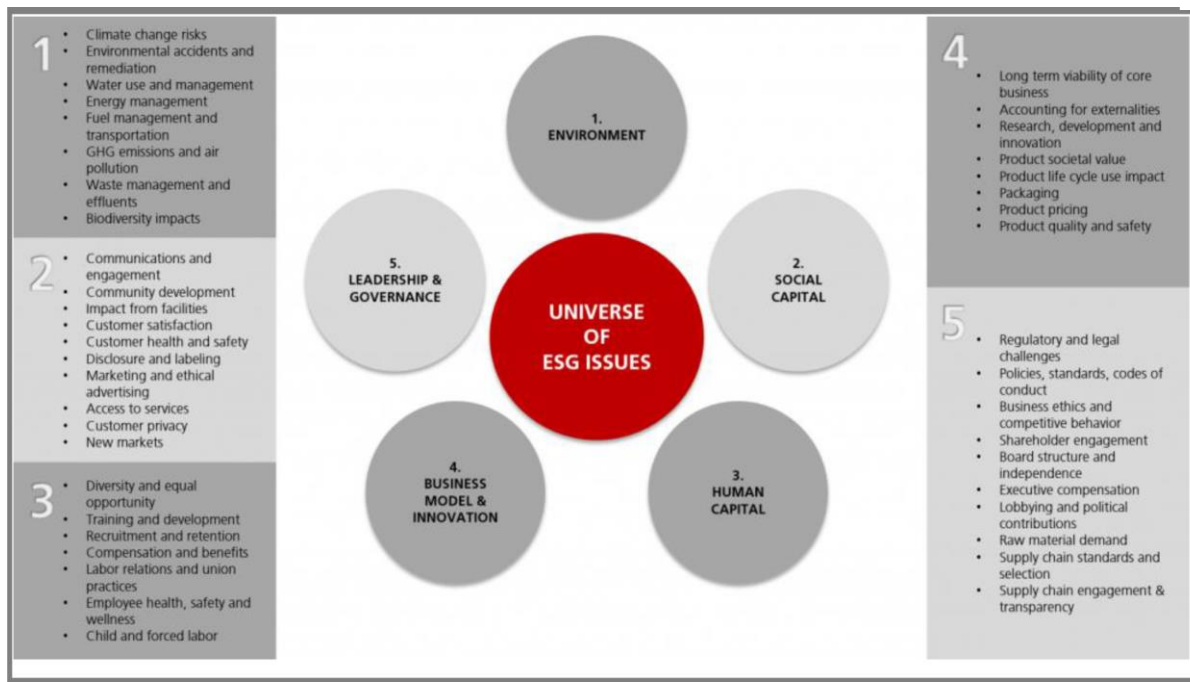


Figure 3. SASB Universe of Sustainability Issues

Source: SASB, 2013

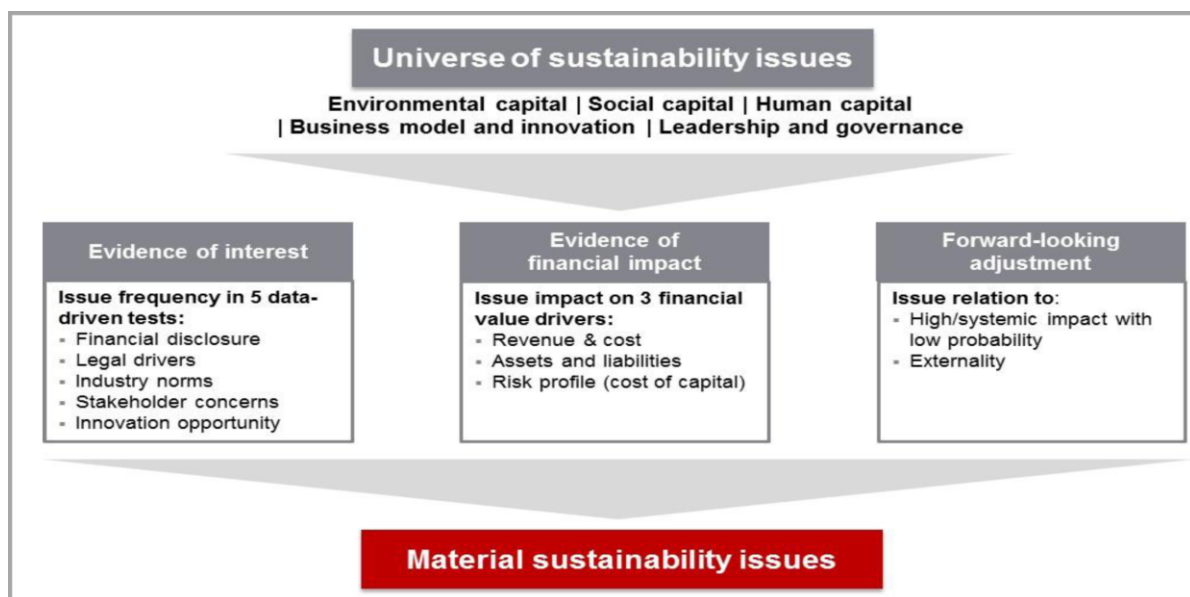


Figure 4. SASB's Evidence-based Method to Determining Material Issues

Source: SASB, 2013

Therefore SASB's approach to sustainability accounting consists in defining metrics or indicators – both qualitative and quantitative – that express a fair representation or “account



for” company performance on material sustainability topics, and ensure that reasonable investors have access to the “total mix” of information in their decision making process. Areas include attention to management of critical capitals, vulnerability to depletion or misuse of these capitals, scenario-planning regarding alternative resources, risks associated with mismanagement of certain environmental or social issues and opportunities associated with global or industry sustainability challenges. SASB states that accounting for sustainability performance will give the reasonable investor better access to the ‘total mix’ of information, whether by allowing markets to better “price” certain externalities or by adequately considering other forms of capital and their effect on financial valuation (SASB, 2013). Figure 3. Shows the sustainability topics from an initial set of 43 generic sustainability issues by developed SASB under five broad sustainability dimensions. Figure 4. shows SASB’s Evidence-based Method to Determining Material Issues.



Figure 5. SASB Standards Development Process

Source: SASB, 2013



3. Conclusion

Sustainable development including economic, social and environmental dimensions of human welfare is vital for all the global society and the earth. Firms, governments and civil society care about more than ever on sustainability issues, such as global warming, environmental pollution, life quality, income distribution differences, in short, better social, economic and environmental system. One of the most important elements of the sustainability is better sustainable accounting all the activities in the value chain management. Main finding of this study is that the development process of sustainability accounting and sustainability accounting standards in order to contribute sustainable economic development by improving accounting standards is still continuing by considering multi-dimensional factors actors.

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