BOWEN UNIVERSITY
(of the Nigerian Baptist Convention)

2021 INTERNATIONAL CONFERENCE ON ACCOUNTING AND FINANCE (ICAF)

ACCOUNTING AND FINANCE PROGRAMME
COLLEGE OF MANAGEMENT AND SOCIAL SCIENCES (COMSS)

BOWEN UNIVERSITY, IWO, OSUN STATE, NIGERIA

29 NOVEMBER – 1 DECEMBER 2021

THEME

ACCOUNTING AND FINANCE PROFESSION – FOSTERING SUSTAINABILITY INITIATIVES

PUBLISHED IN THE

INTERNATIONAL CONFERENCE ON ACCOUNTING AND FINANCE PROCEEDING

(ISSN: 2814-0257)

VOLUME 2

BOWEN UNIVERSITY
(of the Nigerian Baptist Convention)

2021 INTERNATIONAL CONFERENCE ON ACCOUNTING AND FINANCE (ICAF)

ACCOUNTING AND FINANCE PROGRAMME
COLLEGE OF MANAGEMENT AND SOCIAL SCIENCES (COMSS)
BOWEN UNIVERSITY, IWO, OSUN STATE, NIGERIA

29 NOVEMBER – 1 DECEMBER 2021

THEME

ACCOUNTING AND FINANCE PROFESSION – FOSTERING SUSTAINABILITY INITIATIVES

PUBLISHED IN THE

INTERNATIONAL CONFERENCE ON ACCOUNTING AND FINANCE PROCEEDING

(ISSN: 2814-0257)

VOLUME 2

LEAD PAPER: ACADEMIC

ACCOUNTING FOR SUSTAINABILITY IN AN UNREGULATED TERRAIN

Solabomi Ajibolade

Department of Accounting University of Lagos, Akoka, Lagos State

ABSTRACT

Sustainability has become increasingly important for businesses and societies at large. As a result, accounting and reporting on sustainability has received a great deal of attention. New corporate reporting approaches have been developed to disclose information on the three key dimensions of sustainability (environment, social and economic). However, there is yet to be a unified framework for reporting on sustainability. Several reporting frameworks have been created to guide the form and content of such corporate reports. The content of companies' sustainability reports therefore vary and often lack comparability. This paper reviews various reporting frameworks existing for accounting for sustainability and the implications of having unregulated sustainability reporting. Based on this review, the paper proposes roles for the accounting profession and suggests some future research agenda aimed at advancing the field of sustainability accounting and reporting. The paper by so doing, is expected to act as a stimulus for more impactful research in this area.

INTRODUCTION

Sustainability is increasingly becoming more important not only for all businesses but also for all societies around the world. As popular as sustainability is, there is no universal definition of what it is and several definitions have ben advanced. However, one of the most adopted definitions is that presented in the Brundtland Report which defined sustainability as, "... development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987). Sustainability is simply viewed as a business approach to creating long-term value by taking into consideration how a given organization operates in the ecological, social and economic environment it is built on the assumption that developing such strategies foster company longevity (Haanaes, 2016). Increasing demand for corporate accountability and transparency about the impact of corporate decisions on the environment and society as a whole has given rise to the concept of Sustainability Accounting and Reporting (Ball, Owen, & Gray 2000) which has received significant research attention in the field of accounting (Lamberton 2005; Schaltegger et al. 2013). Generally, Sustainability Accounting and Reporting augments the traditional external corporate financial reports, providing benefits to larger stakeholders in addition to shareholders of companies. Traditionally, companies are mandated to issue performance reports to existing investors, potential investors and other stakeholders at the end of the accounting period. This report is usually financial in nature and measured in terms of profitability on the assumption that the primary purpose of commercial organisations is to give returns to shareholders for the risk taken. However, this shareholder value approach has been criticized for its lack of transparency, information asymmetry and its short-term orientation. Consequently, there is increased demand for non-financial information to guide the decision making process of users leading to a paradigm shift from using only financial indicators to assess companies' performance to using both financial and non-financial measures. More organisations now report on sustainability, which goes beyond reporting on just economic performance to reporting on environmental and social responsibility of firms, in addition to economic performance conceptualised as the "Triple Bottom Line (TBL) reporting" (Asif, Searcy, Garvare & Ahmad 2011; Herzig and Schaltegger, 2011). Many Companies in most industries now engage, to varying degrees, in social-, climate-and environmental issues. Sustainability accounting has increased in popularity in the last couple of decades. Many companies are adopting new methods and techniques in their financial disclosures and are providing information about the core activities and the impact that these have on the environment. However, provision of much of this information is voluntary, for instance an SASB (2017c) study noted that 83% of companies registered with the U.S. Securities and Exchange Commission (SEC) disclose some sustainability information in their regulatory filings. Thus, lacking in comparability and verifiability. In fact, countries like United Kingdom, United State of America, China and India make sustainability reporting mandatory for state owned corporations and quoted companies excluding small and medium enterprises, either as a stand-alone report or its inclusion in the annual report, which is not the case in Nigeria. The Nigerian sustainability disclosure guideline issued by Nigerian Stock Exchange (NSE) in November, 2018 is still persuasive as the NSE encourages all listed companies to consider and adopt the practice of sustainability reporting.

DEVELOPMENT OF THE CONCEPT OF SUSTAINABILITY

George (2009) suggested that sustainability has been in existence for over a century and some decades emanating from an idea known as spaceship earth. However, the concept received great attention and awareness with the emergence of the term "Sustainable Development as pronounced in the Brundtland Report of 1987. The United Nations was moved by the increased concern about the effect of economic development on human peaceful existence; depletion of natural resources and the environment to publish the Brundtland report which was inaugurated in 1983 to suggest possible solution to maintaining sustainable development. The Brundtland report was centered on how to balance economic growth, environmental protection and social justice to ensure equitable distribution of resources as laid down by the WCC, via a new approach known as sustainable development. In furtherance to the Brundland report of 1987, the United Nations (UN) also organised a conference on Environment and Development in 1992 popularly referred to as Rio Earth Summit. It brought the world's government together from 179 countries to deliberate and agree on environmental and developmental issues in the 21st century (United Nations, 1992). The UN declared that countries have the right to development but 3 this must be done in an equitable manner to meet the developmental and environmental needs of both the present and the future generation. The major achievements of the Earth summit are the declaration of 27 principles on sustainability (which have human being at the center of attraction of sustainable development) and the adoption of Agenda 21. The summit defined sustainability as: development based on pattern of production and consumption that can be pursued into the future without degrading the human natural environment. It involves the equitable sharing of the benefits of economic activity across all sections of society, to enhance the well-being of humans, protect health and alleviate poverty (United Nations, 1992) Definition of Sustainability is problematic as different scholars have offered a variety of definitions. However, a recurring theme in those definitions is the preservation and conservation of natural resources and the environment, economic growth, social equity, good governance and global protection of the world. Elkington (1997) described sustainability in its narrowest and broadest terms: (i) sustainability or triple bottom line in its narrowest term is a framework for measuring and reporting corporate performance against economic, social and environmental parameters. (ii) sustainability in its broadest term, is the whole set of values, issues and processes that companies must address in order to minimise any harm resulting from their activities and to create economic, social and environmental values and the three lines represents society, economy and the environment. Elkington has expanded the scope of sustainable development, by Brundtland report of 1987, which centered mostly on the environment. He reiterated that the Triple Bottom Lines (TBL) which are social, economic and the environment represent people, profit and the planet. The TBL construct incorporates the economic and social lines into the environmental agenda.

SUSTAINABILITY REPORTING

Lozano (2013, pp. 58) defined sustainability reporting as, "a voluntary activity with two general purposes: (i) to assess the current state of an organisation's economic, environmental and social dimensions, and (ii) to communicate a company's efforts and sustainability progress to their stakeholders". Corporate sustainability reporting is the extended scope of annual reports, which no longer simply provide financial information, but also have "concomitantly begun to provide relevant information to a more comprehensive community of stakeholders" (Peiyuan, 2007). The term "sustainability reporting" is seen as the predominant label for disclosing non-financial information, and includes reporting on all three aspects of the triple bottom line – economic, social, and environmental (Gray & Herremans, 2011). Sustainability reporting is therefore often used interchangeably with Non-financial reporting, Environment, Social and Governance (ESG) reporting, and CSR by stakeholders and commentators (BEIS 2020). Sustainability reporting allows organisations to assess the impact of their business activities on the society, environment and economy thereby enabling them to be more transparent about the risk and opportunity they face. Sustainability reporting is the act of sharing sustainable practices with shareholders. It results in the generation of sustainability report. Sustainability report is defined as a report published by a business about the economic, environmental, and social impacts of its everyday activities. A sustainability report also presents a business' values and governance 4 model and demonstrates the link between its strategy and its commitment to a sustainable global economy GRI defines sustainability reports as a report published by a company or organisation about the economic, environment and social impacts caused by its everyday activities. A sustainability report also presents the organisation's values and governance model and demonstrates the link between its strategies and its commitment to sustainable global economy. Sustainability reports typically include non-financial information, or "all information reported to shareholders and other stakeholders that are not defined by an accounting standard or a calculation of a measure based on an accounting standard" (Eccles & Krzus, 2010, p.83). The report can be integrated into the annual report or issued as a stand-alone report. It creates an avenue to report on both the positive and negative impact of an entity on the society and the environment at large. While the IFRS and Generally Accepted Accounting Principles (GAAP) are mandatory for preparers to use in preparing their accounts, there are no equivalent standards for reporting non-financial information. How preparers actually report on these obligations is not mandated. It is still a voluntary practice, in many countries such that the information reported varies among companies. Preparers must navigate a complex array of choice from existing frameworks for reporting (BEIS, 2020). The requirement for preparers to report on their non-financial data has led to the proliferation of voluntary Reporting frameworks used by preparers and industry. Many new bodies have been created and each sets out its own approach to reporting. DBEIS (2020) suggested that there may be up to 400 frameworks to guide corporations in identifying content of report. With so many different options for frameworks available, it can be difficult for preparers and investors to know which reporting option is most valuable. However, this situation has led to the development of mandatory regulations. Some countries have started to include sustainability disclosure requirements within legislation, and financial and securities regulations (GRI, 2013; Vander, Esch & Steurer, 2014; Loannou & Serafeim, 2011). Some countries call for sustainability disclosures in the annual report, while others demand particular sectors to report (GRI 2013). In Nigeria, Sustainability reporting is still developing, and companies vary substantially in the kind of reports issued. While some reports place emphasis on one aspect of the triple bottom line (i.e., environmental, or social responsibility), some focus on two dimensions (i.e., environmental and social responsibility); very few include all three dimensions of the triple bottom line. The fact that there exist many frameworks for sustainability reporting makes comparability of these reports difficult Some of the more popular Sustainability reporting frameworks include the following:

1. The Global Reporting Initiative (GRI) The Global Reporting Initiative is an international independent standards organization that helps businesses, governments and other organizations understand and communicate their impacts on issues such as climate change, human rights and corruption. GRI has been the international standard to build sustainability reporting worldwide. The GRI develops the GRI Standards and promotes their use by organizations around the world. The GRI Standards enable organizations to understand and report on their impacts on the economy, environment and people in a comparable and credible way, thereby increasing transparency on their contribution to sustainable development. GRI released the "GRI Standard" acknowledged globally. Not only including the metrics of sustainable performance but also as the company's navigation in the reporting process. This applies to companies of various sizes and sectors. By utilizing GRI's standard, the company could determine the key problems that most stakeholders are concerned about. Furthermore, the indicators adopted in GRI are understandable and recognizable and comparable to other indicators.

2. International Integrated Reporting Framework (IR) The International Integrated Reporting Council (IIRC) a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs which developed The International Framework to serve as the standard regarding provision of additional non-financial information in an integrated report The purpose of this Framework is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them. An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term. An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers; Enhances accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies

3. Sustainability Accounting Standards Board (SASB) SASB is an independent nonprofit organization with the declared mission to implement sustainability standards. The goal is to encourage the public company to disclose important information to the investors. SASB identifies sustainable topics from 30 relevant issues, classified into 5 dimensions. Other frameworks are:

1. United Nations Global Compact (UNGC)

2. Task Force on Climate Related Disclosures TCFD

3. CDP (formerly Carbon Disclosure Project) CDP

4. Dow Jones Sustainability Index DJSI

5. Science Based Targets Initiative SBT Tools

6. Carbon Disclosure Project (CDP)

7. The Task Force on Climate-Related Financial Disclosures (TCFD)

8. CDSB Framework To disclose environmental and natural capital information

9. Streamlined Energy and Carbon Reporting (SECR)

10. The Impact Weighted Accounts (IWA)

11. The Sustainable Development Goals (SDGs)

Recently, the Financial reporting Council of Nigeria (FRC) issued the Nigerian code of corporate governance. Its adoption and compliance by all entities covered by the code takes effect from financial year ending after 6 January 1 2020 in the form and manner prescribed by FRC (FRCN, 2018). The code was divided into seven parts (A to G). Part E section 21 is dedicated to sustainability issues. The section stipulates the information and recommends practices that should be disclosed in annual reports from section 21 sub sections 1 to 3 as follows: To lend credent to the National Code of Corporate Governance (NCCG) on sustainability matters, The Nigerian Stock Exchange (NSE) joined the league of countries moving away from voluntary sustainability reporting to mandatory sustainability reporting though still persuasive to a great extent. Given the importance of sustainability impact on overall business performance, the NSE commenced a phased project from 2015 through 2017 to integrate sustainability reporting in the annual reports of its listed companies by hosting the inaugural Nigerian Capital Market Sustainability Conference (NCMSC). The outcome of the NCMSC, which is centered on the business value of sustainable investment, enhancing corporate transparency and ultimately performance on Environmental, Social and Governance (ESG) issues, birthed the production of sustainability disclosure guidelines (SDG). The SEC approved the SDG on November 9th, 2018 after the submission of the draft guidelines in May, 2017 by the Rules and Adjudication

Committee of Council (RAC). The NSE sustainability Disclosure Guideline is divided into four major parts ranging from sustainability value proposition, approach to integrating sustainability in organisations, principles and core elements to reporting requirements. The SDG required all listed companies to mandatorily ensure that sustainability report should contain relevant and meaningful information to stakeholders (NSE, 2018). Due to the narrowness of the SDG, listed companies are also to consider the themes and guidance provided in internationally accepted standards such as the Global Reporting Initiative (GRI) Standard.

ROLES FOR THE ACCOUNTING PROFESSION

The Professional accountant is very important to the sustainability projects in organisations. The accounting profession will face significant changes in the next decades, and professional organizations, their members, and educational institutions should be prepared to respond appropriately. Accountants need to develop the knowledge and skill set necessary to identify and address sustainability opportunities and challenges The regulatory concern for different social and environmental issues, along with the associated measurement and reporting complexities of these issues, The important implication is that all professional accountants will be expected to look beyond the numbers, which will, in turn, enhance collaborations among members of multiple professions, including accountants, doctors, lawyers, environmental scientist, sociologists, and so on. Furthermore, with the gradual development of regulatory frameworks in several countries; accountants will need to broaden their knowledge and to establish a common dialogue with social and ecological professionals. Greater interdisciplinary cooperation may be necessary to prepare and audit sustainability accounts. Increased regulation, and the associated disclosure rules, will also have the greatest impact on the profession for years to come. Additionally, because of greater public pressures and stakeholder expectations, social and environmental considerations are getting more importance alongside economic concerns in contemporary organizations. 7 More and more stakeholder groups including shareholders, workers, governments or regulators, non-governmental organizations, media, and the community have a growing interest in organizational social and environmental issues. Because of the widespread stakeholder concern and associated regulations toward social and environmental considerations, contemporary organizations are facing challenges to find sustainable solutions to deal with the complexity of integrating financial, social, and environmental performance. Quite tied to this, new forms of regulation (such as integrated reporting, are emerging and members of accounting organizations need to be in readiness for in this transformation.

CONCLUSION

This paper has undertaken a review of literature on the development of sustainability accounting and reporting. It noted that sustainability accounting has extended traditional accounting, improving transparency and accountability by reporting on non-financial (the Triple-P's) and more companies all over the world including Nigeria have embraced it. It has found that there is no universal framework for delivering a sustainability report but a proliferation of frameworks for sustainability reporting. However, the flexibility in reporting sustainability which allows preparers to disclose material information related to their unique priorities and needs has some negative implications for comparability. Furthermore, compared with financial reporting, Non-financial reporting is more reliant on qualitative description, rather than more comparable quantification and metrics. Preparers of reports have an important role to play in driving towards sustainability. While the creation of sustainability frameworks and measurements to improve the communication between businesses and stakeholders is shareholders is valuable, the flexibility in reporting and the introduction of new forms of regulation are also major challenges for the profession, professional bodies as well as educational institutions which they need to respond to in the area of developing new curricular for the training of accountants, There have been efforts to harmonise some of these frameworks but these have tended to focus on demonstrating what is common between frameworks, or on creating new frameworks for non-financial reporting These unregulated developments have resulted in a complex reporting environment which is highly fragmented. For example, BEIS (2020) reported that there may be as many as over 400 reporting frameworks. However, increased regulation of sustainability reporting through standardisation of reporting content may lead to reduction in the value of the information reported.

REFERENCES

Asif, M., Searcy, C., Garvare, R., & Ahmad, N. (2011). Including sustainability in business excellence models. Total Quality Management and Business Excellence, 22(7), 773–786.

Department for Business energy and industrial strategy (BEIS) (2020) Frameworks for standards for non-financial reporting BEIS research paper number 2020/052 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/935097/frameworks-for-standards-for-non-financial-reporting.pdf

Gray, R. (2005). Current Developments and Trends in Social and Environmental Auditing, Reporting & Attestation: A Personal Perspective. (E-Journal) Radical Organisation Theory Special Issue on "Theoretical Perspectives on Sustainability", Draft 2B, April, Retrieved from https://www.standrews.ac.uk/media/csear/discussion-papers/CSEAR_dps-socenv-curdev.pdf

Lamberton, G (2005). Sustainability accounting—a brief history and conceptual framework". Accounting Forum. 29 (1): 7–26. doi:10.1016/j.accfor.2004.11.001.

Lozano, R. (2013). Sustainability inter-linkages in reporting vindicated: Astudy of European companies. Journal of cleaner production, 51, 57-65.

Haller, A., Link, M., and Gross, T. (2017) The Term 'Non-financial Information' – A Semantic Analysis of a Key Feature of Current and Future Corporate Reporting, Accounting in Europe, 14, (3), 407–429

Brundtland, G. H. 1987 Report of the World Commission on Environment and Development: Our Common Future https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf

Ball, A., Owen, D. L., & Gray, R. (2000). External transparency or internal capture? The role of third-party statements in adding value to corporate environmental. Business Strategy and the Environment, 9(1), 1–23.

Eccles, R. & Krzus, M. (2010). One report. Integrated reporting for a sustainable strategy. NewJersey: John Wiley & Sons Inc.

Elkington, J. (1997). Cannibals with forks: The triple bottom line of the 21st Century Business. Oxford: Capstone publishing

Haanaes, K. (2016). Why all businesses should embrace sustainability. Retrieved from https://www.imd.org/research-knowledge/articles/why-all-businesses-should-embrace-sustainability/

Herzig, C., & Schaltegger, S. (2011). Corporate sustainability reporting. In J. Godemann & G. Michelsen (Eds.), Sustainability communication (pp. 151–169). Heidelberg: Springer.

Global Reporting Initiative (2021) GRI Standards. Retrieved from https://www.globalreporting.org/ https://www.globalreporting.org/In

2018 United Nations (1992), A new blueprint for international action on the environment United Nations conference on environment and Development, Rio de Janeiro, Brazil, 3-14 June. Retrieved from https://www.un.org/en/conferences/environment/rio1992