Accounting for Sustainability Forum – 17 December 2008
Summary of presentation by Professor Jeffrey Unerman to Session 3: Placing a value on sustainability

The aims of this presentation are to explore limitations of existing social valuation techniques, and topics for future research in this area. Firstly some techniques currently available to account for the social impact of operations are outlined. Secondly some of the key gaps and challenges in translating measurement of social impact to organisational value are discussed. Finally some potential responses to addressing these gaps are proposed. In all of these areas, the term social accounting is used to encompass accounting for both social *and* environmental policies, practices and impacts.

Techniques currently available to account for the social impact of operations

There are several frameworks that address or facilitate social accounting. Among these are:

- GRI
- Connected Reporting Framework
- AA1000
- Triple bottom line reporting
- Ecological footprinting
- Social auditing
- Balanced scorecard
- Sustainability assessment model

A key characteristic most frameworks share is they do not attempt to reduce the social impact of operations into a single common metric. For many individual types of social impact, several of the frameworks do not even attempt to report in terms of metrics but encourage narrative reporting.

The frameworks are voluntary, and use of a range of different frameworks does little to help stakeholders compare social and environmental impacts across different organisations.

Overall, therefore, there are several different frameworks that organisations can and do use to help them account for their social impacts. Much of the resultant 'accounting' is narrative, with some aspects reported in quantified but non-monetary terms and a small proportion of disclosures quantified in financial terms. Epstein (2008) provides a helpful overview of some techniques that can be used to attempt to put an economic value on social and environmental impacts. These include: estimating costs required to avoid specific negative social and environmental impacts, or remediation costs; estimating a consensus among stakeholders on the economic value of site-specific social and environmental damage; identifying the market price, or social consensus value, of negative externalities. A recent focus has also been on *Social Return on Investment* (SROI) techniques developed by NEF. All these valuation techniques need to be treated with great caution to guard against an inherently complex and subjective valuation figure being treated as simple and objective.

Gaps and challenges in translating measurement of social impact to organisational value

A prerequisite to addressing this question is the need to agree on a definition of *organisational value*. This is a complex and highly political issue.

If *organisational value* is to be measured and communicated in financial/economic terms, this implies consensus among stakeholders on the economic equivalent value of a range of social and environmental impacts. As different stakeholders are likely to have different priorities, wants, needs and expectations, arriving at an acceptable and accepted *value* figure for each type of impact requires a democratic process to negotiate a consensus among all stakeholders. This involves extensive open and honest stakeholder dialogue including the voices of relatively powerless stakeholders, and is a significant challenge in attempts to place a subjective value on sustainability (or on individual externalities).

In addition, new business models may emerge from the current economic collapse – arising from changed conceptions of what it means to be socially responsible as well as changed attitudes towards corporate power – that might challenge and change accepted conceptions of *value*. Indeed, McSweeney (2008) demonstrates that the common aim of *maximising shareholder value* is neither inevitable, legally required (in most jurisdictions) nor does it often deliver maximum benefits to shareholders or to society.

In attempting to account for social impact, we need to be wary of adopting inappropriate practices from financial accounting. For example: the requirements of the two systems are different as social accounting aims to achieve improvements in social welfare for a broad range of stakeholders; as a model for social accounting, financial accounting may be useful to identify what it is not captured – for example social and environmental externalities; the term 'materiality' as presently understood in financial accounting does not work in many social contexts (a significant social or environmental externality might have an insignificant financial impact); and financial discounting processes are not appropriate for many social and environmental impacts as discounting reduces the current value of future impacts whereas sustainability seeks to place greater emphasis on the future.

There are policies, standards and regulations in existence that aim to enforce or encourage 'good' behaviour, but together these present businesses with a daunting and complex set of 'rules'.

<u>Potential responses to addressing these gaps and challenges – and directions for research</u>

- Practitioners need measurements that are both simple to work with yet still meaningful to both internal and external stakeholders. Indicators that relate to the broader macro-social picture are important, especially in today's challenging economic environment, and need to be developed.
- As social impacts cannot be isolated from other impacts, current frameworks that capture and report a range of dimensions need to be continually refined. These could include fostering policies and processes that support business in shifting focus towards creating wellbeing, possibly with less emphasis than at present on maximising short-term profits. Achieving this will require an active civil society.
- Challenging the business time horizon. Developing workable social measures and practices often requires a long-term perspective, but business often takes a shorter-term economic view.
- Although community impact measurements are challenging to develop, they have been achieved for example in parts of Africa where governments have joint ventures with companies in the extractive industries. Best practice needs to be continually disseminated to provide a toolkit from which each organisation can draw the tools most suitable for its particular situation.
- More effective stakeholder engagement mechanisms need to be developed to help reach consensus on acceptable levels for social externalities. Understanding what measures would be meaningful for stakeholders is a challenge especially in the face of mutually exclusive demands, and differing perceptions and understandings, across different stakeholder groups. Furthermore, reluctance of some stakeholders to engage in the social accounting agenda must be addressed.
- In the face of potentially overwhelming amounts of social accounting information, electronic tools need to be developed and provided to stakeholders (via the Web or on a CD-Rom containing the social accounting data) to interrogate and summarise this data flexibly in a manner determined by the needs and interests of each user.

<u>References</u>

Epstein, M. J. (2008) 'Making sustainability work: Best practices in managing and measuring corporate social, environmental and economic impacts' Sheffield: Greenleaf Publishing.

McSweeney, B. (2008) 'Maximizing shareholder wealth: claims, evidence and some consequences' Management Departmental Seminar at King's College London, 12 November 2008.