Corporate sustainability reporting versus corporate sustainability accounting

As the sustainability crisis is becoming more pressing and more obvious international large companies are feeling the heat not only from the climate crisis but also from investors and governments. The expectations are to change business models and practices to be adequate for the new era where the constraints on natural resources have become apparent. The last couple of years have shown that sustainability reporting does not lead to significant changes. As a consequence the EU commission is planning to tighten the reporting requirements.

A group of German large shareholder companies have gone on the offensive. They want reporting to be based on monetary evaluations. As the argument goes, translating externalities into monetary values would inform management in a language they speak and into mind frames that are habitual in these circles.

VBA prides itself to be well connected in the business world. All the participating organisations and companies are firmly rooted in the capitalist paradigm.

“VBA was founded in June 2019 and represents several large international companies, including Anglo American, BASF, BMW, Bosch, Deutsche Bank, DPDHL, Kering, LafargeHolcim, Mitsubishi Chemical, Otto, Porsche, Novartis, SAP, Schaeffler, SK. The alliance is supported by the four largest professional services networks – Deloitte, EY, KPMG and PwC – as well as by the OECD and leading academic institutions, such as the University of Oxford and the Impact Weighted Accounts Initiative at Harvard Business School. Furthermore, in partnership with the Capitals Coalition, the alliance receives funding from the EU through its LIFE programme for the Environment and Climate Action[1] and is member of the EU Platform Sustainable Finance.“P2

“...VBA is building on the work of leading universities and well-known organizations, such as the World Bank, the OECD, Capitals Coalition, the WBCSD, the Impact Management Project, the GRI, SASB and the IIRC. The envisioned transformation and system change require the cooperative power of all players in the business ecosystem.“ P2

The VBA approach claims to be different from mere disclosure/reporting and instead wants to offer an accounting approach. But it also wants to serve both purposes, reporting and accounting.

“Disclosure (GH: also called reporting) has an external focus and must fulfil the requirement of comparability. Management **accounting** serves an internal function and information used for this purpose must fulfil the requirement of decision usefulness. The focus of this methodology will rest, firstly, on measuring and valuing in monetary terms corporate impacts on society and the environment – standardising calculation “rules” for information for **(internal) decision makers** that **may** then also be **reported** to an **external audience**.“P5 (bold type by the authors**)**

VBA does not clarify its language. It uses professional lingo without (or with?) an awareness that the general public might understand 'accounting' in a different way. The focus of the methodology is only to “serve an internal function.” Therefore the VBA method needs to be categorized as managerial accounting. It is not financial accounting. The latter happens when a company moves money to achieve a certain purpose or when the company is threatened by a future claim to its finances and has to add money to its reserves. Accounting information is very relevant for the outside world and public corporations are obliged by law to inform the public about sudden expected changes of its profitability. Managerial accounting is a maneuver that stays outside of the books. The aim of VBA is to generate information for company insiders in monetary terms to assess the risks that might later become financial entries into the books.

VBA states explicitly this information for insiders “may” - or may not - be used for information of the general public. It is one of the principal methodological failures of VBA: publishing the information about the sustainability impact of the company remains primarily at the discretion of the management of the corporation.

Side note: Therefore the EU Commission is prescribing in ever more detail what a company needs to report publicly. Which in turn is used by corporations to complain about the tendency to bureaucratize sustainability information.

The double purpose to generate management information *and* inform the public about the sustainability performance is already retracted in the opening remarks.

“The value to business perspective tends to be oriented towards mainstream investor information needs and is linked to efforts of understanding risks to businesses’ financial returns arising from environmental and societal impacts and (subsequently) redirecting capital away from those impacts as part of a risk mitigation strategy.” P5

The apparent logic is to recommend capital to flee financial risks. An honest approach with an ethical attitude would want to know the risks and would apply capital (financial resources) to mitigate the damage.

The reason for applying monetary terms to both managerial information and public disclosure is dressed in an euphemism.

“Monetary valuation of a company’s impacts is valuable to users for the following reasons:

Compatible with the language of business. Themes that used to be in the realm of subject- matter experts can become leadership topics for strategic and operational consideration.

Comparable. Different sustainability topics are measured using different types of quantities: water usage is measured in m3, GHG emissions are measured in tonnes of CO2 equivalents, and so on. The use of a single monetary measure makes it easy to understand the relative weight of each impact factor and areas on which to focus.” P9

By sticking to the language of business the VBA approach cannot escape the logic that has led corporations into societal and ecological risks.

By giving ecological and societal items a price the VBA approach is beholden to the illusion that the atmosphere can be restored with adequate investments, that water can be purified and transported whenever and wherever needed and so on. The thinking and hence the recommendations for corporate strategies stay within the limits of a worldview where everything has a price, including human life.

Nature as such – and human life is part of it - does not have a price outside of this monetary worldview. Nature is a living organism where everything is interconnected. The most advanced technologies of transnational corporations cannot produce life in its complexity. There is an ethical debate whether corporations should even aspire to reproduce the complexity of human and ecological life. VBA touches upon this subject fleetingly when aiming to give everything that exists on this planet a price.

“Adjusting the values of health impacts and fatalities for various locations is as much an ethical question as a technical question.” P24.

We will discuss this aspect of VBA later. For now, VBA takes the logic a bit further:

“Monetary valuation ... Helps companies innovate and develop new products based on the societal value that they create, thereby providing insights into impacts beyond financial profits.” P10

This is the other side of the coin: The first recommendation is for capital to flee the risky areas of the business. But if there is a profit to mint from new product opportunities VBA recommends corporations to go for it, sticking to the capitalist principle that any initiative or investment should only be undertaken if there is financial profit to be expected.

It is okay to distribute unlimited profits to shareholders, to pay the C-suite salaries that get to hundreds or even thousands of multiples of a medium income. But actually paying for damages that were caused by the business remains out of the realm of responsibility and therefore out of sight. VBA's intention is not putting a price on everything with the intention to pay for lost lives or for restoring lost ecosystems. VBA intentions are to detect the danger zones for capital and to chart the opportunities for a capitalist system that serves capital more 'sustainably' (in this manner the word is often abused in sustainability reports while the word 'durably' would be adequate).

Possible applications for (monetary) impact valuation

Risk assessment, Decision making, External communication and Evaluation p10

In the light of what was stated before by VBA it becomes clear that the monetary impact valuation wants to direct capital away from risky areas and wants to be instrumental to detect new profit options. It is also revealing that the external world seems only a target of the communication. Presumably it is understood as one-way communication selling the interest of the company to a wider public. There is no mention of a dialogue on eye-level to understand mutual concerns.

In a next step VBA is discussing the scope of items that should be covered by the methodology.

2.5. SCOPING

Classification of topics

...should be noted that "more sustainable" business decisions ought to look beyond more environmentally friendly decisions, with the following dimensions established in the sustainability field:

• Economic, • Environmental, • Human and social.

Some areas – such as impacts associated with GHG emissions and climate change – are well established. Other approaches, particularly those associated with biodiversity but also human and social topics, are far less advanced, and are subject to ongoing debate among a broad range of stakeholders involving standard setters, academia, business and others. At the time of writing, this process is not complete. p11

By selecting those three dimensions VBA uses a concept developed by John Elkington, which has become known as the triple bottom line (TBL) approach. The concept posits that companies should commit to focusing as much on social and environmental concerns as they do on profits.[1]

In 2018 John Elkington has recalled his own creation because he has come to the conclusion that his concept has been abused by corporations.[2]

"...the TBL concept has been captured and diluted by accountants and reporting consultants. Thousands of TBL reports are now produced annually, though it is far from clear that the resulting data are being aggregated and analyzed in ways that genuinely help decision-takers and policy-makers to track, understand, and manage the systemic effects of human activity.
Fundamentally, we have a hard-wired cultural problem in business, finance and markets. Whereas CEOs, CFOs, and other corporate leaders move heaven and earth to ensure that they hit their profit targets, the same is very rarely true of their people and planet targets. Clearly, the Triple Bottom Line has failed to bury the single bottom line paradigm."

"Critically, too, TBL's stated goal from the outset was *system change* — pushing toward the transformation of capitalism. It was never supposed to be just an accounting system."

"With this in mind, I'm volunteering to carry out a management concept recall: with 2019 marking the 25th anniversary of the "triple bottom line," a term I coined in 1994, I propose a strategic recall to do some fine tuning."

What John Elkington describes is exactly accurate for the way VBA is using his concept. VBA logic

1 https://www.investopedia.com/terms/t/triple-bottom-line.asp, accessed 27.5.21

2 https://hbr.org/2018/06/25-years-ago-i-coined-the-phrase-triple-bottom-line-heres-why-im-giving-up-on-it, accessed 17.7.21

reverses the TBA logic by stating "business decisions ought to *look beyond* more environmentally friendly decisions" P11. It was Elkington's aim to instruct business decisions to *look beyond* the single profit mindset.

The scope VBA is applying has the TBL structure and looks like this:

Table 1: Scope of indicators for impact statement method, v0.1

Economic	Gross Value Added (GDP contribution): taxes, wages, profits, etc.
Human and social	Occupational health and safety
	Training
Environmental	GHG/climate change
	Air emissions
	Water consumption
	Water pollution
	Land use (biodiversity)
	Waste

This scope has been used in the past to report on sustainability performance. It is not particularly innovative and shows an astonishingly narrow worldview. The row with the economic data should be further differentiated. To whom do profits accrue? What is the amount of dividends flowing to shareholders? How does the company use its profits to create a sustainable business model?

In 'human and social' are more items relevant to report: diversity of the workforce and the leadership, types of working contracts that influence work life balance, decision-making rights and co-determination of employees etc.
The environmental data should be extended to report on corporate practices infringing on the planetary boundaries, a very relevant concept developed by the Stockholm Resilience Center.

The superficiality of the approach is not an accident, it is due to the lens of the methodology. Even though VBA has the term 'value' in its name it does not scrutinize the very values that its approach to business is based upon. Obviously the term 'value' in VBA thinking does not refer to ethical values but means 'monetary value' defined in a market economy where everything has a price and what does not have a price does not have a value. The authors abstain in various situations from including themes into their consideration where they say there is not a mature consensus to put a value on something and it becomes clear that they mean 'does not have a price'. P 11: "Other approaches, particularly those associated with biodiversity but also human and social topics, are much less advanced,..."

However the authors state

"When using impact valuation for decision making, it is strongly recommended that social and human topics are covered at least in qualitative terms." P12

We will discuss later if and how they follow their own recommendation.

The Common Good Balance Sheet: A Values-Based Reporting Method for Sustainability

A concept which explicitly states the ethical values it is based upon is Economy for the Common Good.
The lens of ECG on economic activities describes them with regard to their contribution to

humanistic values.
While there is a wide debate possible on what humanistic values are ECG takes a pragmatic approach by referring to values that are enshrined in democratic constitutions. The values ECG reporting is based upon are human dignity, social justice and solidarity, ecological sustainability and democratic co-determination with transparency. These values are anchored in the European constitution, the Maastricht treaty, they are inshrined in the basic law of Germany and in many constitutions of democratic states.
It can and it should be discussed if these values are the right ones, if they are complete, if they are applicable to all societies. ECG leaves this debate open and would be happy to instigate or join it in the near future.

ECG attempts to correct the fallacies of company reporting as introduced by the GRI and wants to transcend the limitations of ESG concepts which allow for greenwashing. The GRI data and the ESG logic are the dominant models in international shareholding companies.

The Economy for the Common Good suggests a model for reporting (and for strategic decision making) that is based on a set of ethical values: human dignity, social justice and solidarity, ecological sustainability, democratic, determination and transparency.
The contribution to these values is expressed for each stakeholder group in an ECG balance: suppliers, owners and financial providers, employees, customers, and society at large which includes the environment. A matrix depicts the intersecting fields which are called 'themes' in ECG language.
In each 'theme' the extent of the contribution to e.g. 'human dignity in the supply chain', is measured in a point system, that allocates a comparative number of points on companies' practices. The measurement stick of this comparison are good practices considered as ethical, i.e. fair and sustainable, by ECG.

ECG understands that ethical practices need to be defined in a democratic process with the participation of all organisations with an interest and competence In this field. However it would be paramount to avoid the overwhelming influence of investors of capital as they are in the current economic model the group that expects an oversized return from economic activities.

The points system avoids allocating monetary values to items that cannot be measured with money because they have a dignity. Many items in the sustainability discussion refer to humanistic and democratic values which are ethical values and by definition are non-monetary. We will discuss this more in detail further below. ECG respects this difference and uses monetary values where adequate and otherwise uses a concept of comparative descriptions to identify the relative ethical value of companies' practices and expresses it in points allocated. Economic practices with a damaging effect on ethical values draw negative points. As a maximum 3600 negative points could be allocated and the positive side stretches over 1000 points. With this evaluation concept it can be avoided that negative practices in one theme could be outweighed by positive points in another theme.
All the working materials are published on the website www.ecogood.org in various languages and the use of the model is for free.
Each ECG balance reports on 20 themes that are deemed material or relevant for understanding the impacts of an organization in the natural and societal context.

It is the aim of ECG to put the ECG balances in a broader context of the transformation of the current economic model; away from a focus on monetary returns on investment and instead focusing on contributions to the common good. The view on company reporting reflects this transformative intention by putting reporting into a context of humanistic values that reflect the evolution of human societies hitherto and in the future.

There are substantial contrasts between the thinking and methods of ECG and the framework being developed by VBA. A public debate between those differing concepts would be necessary and useful.

VBA stresses its roots in the business ecosystem (P2) and explains its claim to serve the twofold purpose of business decision-making and external disclosure (P5) by the innovative approach of putting a market value (P9) on everything that is relevant to understand the sustainability performance of a business using the triple bottom line concept (P11). After limiting the scope to traditional TBL thinking (remember: the concept has been recalled by its creator) VBA establishes the connection to its core purpose:

“Monetary valuation of impacts on society has a common end goal: to provide the data that help increase human well-being. Well-being has many components, which are described in the OECD’s individual well-being framework.” P19

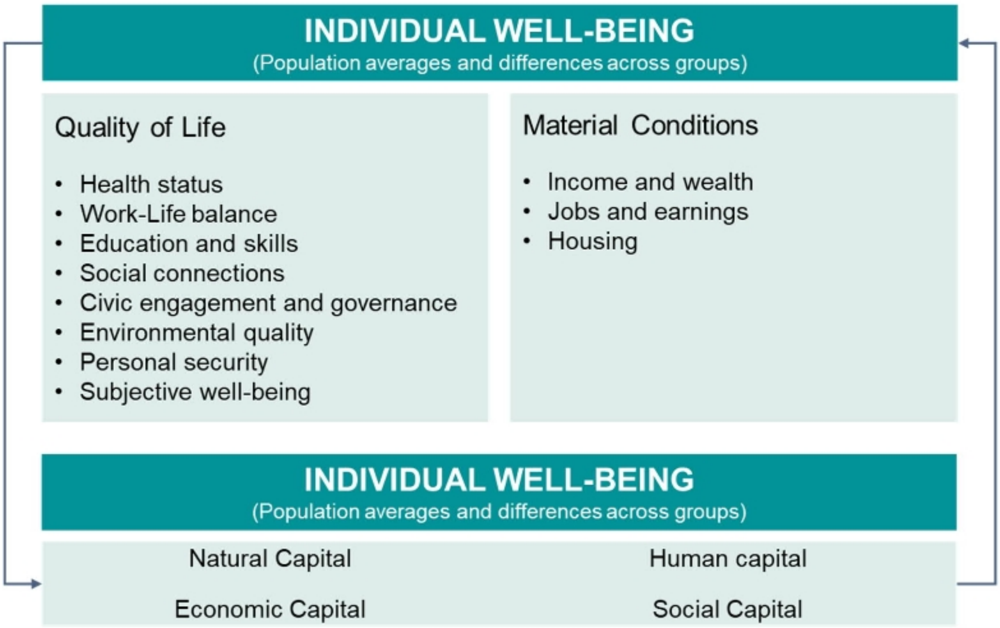

Figure 4: The OECD well-being conceptual framework[11]

Many environmental and social drivers affect well-being via changes in health status – as air pollution can lead to respiratory diseases, reduced access to clean water can lead to water-borne diseases p19

VBA wants to show how business activities affect the dimensions of well-being as defined by the OECD. It grapples with the challenge to put a monetary value, a market price, on each of these dimensions. At first VBA recognizes that market prices don't exist because impacts on well-being are not considered in financial accounting to the current date. VBA does not intend to give externalities a market price – this would require companies paying for externalities in market transfers. Instead now VBA turns to economic theory:

“Economic theory suggests that when consumers and managers of organisations make consumption and production decisions based on their own preferences, there are external impacts both on themselves and third parties, which are known as “externalities”. Externalities can be negative or positive.” p18

“Our current accounting (GH: again VBA plays with the double speak of financial accounting to which is does not refer here and managerial accounting which is the purpose here) approaches and, therefore, market prices and the economy do not capture the value of business activities for wider society – hence, the term “externalities””. P18

VBA undertakes a complex journey in search for credible approximations to hypothetical market prices of items that don't have a value (a market price).

“...economics theory encompasses a combination of approaches that are heterogeneous in terms of boundaries, objectives and methodologies. They also represent different schools of thought. “P18

VBA resorts to a concept of 'total economic value' and explains it with the example of a forest. P21
“Direct use value: The value of products taken from the forest (e.g. timber and paper from harvesting the trees, or medicines produced from the plants in the forest).” Other values are: Indirect use value, option value, existence value, altruistic value, bequest value.

“Typically, market prices only represent the direct use value component of this framework. When developing an approach aimed at understanding the value of externalities for society, it is important to capture as much of the total economic value framework as possible.” p22

The ethical conundrum and the ethical absurdity become apparent is the discussion of setting a price for a human life.

“The “value” of a life is a contentious topic. However, the value of a statistical life (VSL) has been used by policymakers around the world when deciding whether regulations to reduce the likelihood of fatalities are worth the costs of implementing them. This need to inform policy decisions led to a significant amount of research into an appropriate VSL. To quantify the impact of environmental topics on society therefore requires an application of this research to estimate the value to society of negative externalities that lead to fatalities or increase the likelihood of fatalities.” p22

“VSL estimates are typically based on a stated preference or the revealed preference approach. The revealed preference approach is a form of hedonic pricing in which the increased pay required to compensate employees for accepting jobs with a higher risk of death is used to estimate the value someone places on their own life.” P 22

The salaries of miners come to mind here. However miners are only able to get a higher salary if and when their work is performed in a labor market with a legal and enforceable framework of labor protection laws. The legal framework does not exist in those parts of the world where most miners work today. VBA understands this dimension only as 'lower-income countries'. The context as to why lower income countries exist is not of interest to VBA as they are only concerned with the focus on putting a price on this item and by this very approach a human life is transformed into a commodity of some kind.

“The ethical concern is whether it is appropriate to adjust the value of life or health by country, as such processes typically assign a lower value to the lives of those in lower-income countries than to the lives of those in higher-income countries.” p25

The ethical concern is not pursued in ethical categories but is transformed in a market price allocation or better said it is transformed via a set of simple and practical estimations that allow to arrive at a market price. One of the estimations suggests the use of international dollars. Miraculously, the ethical consideration has disappeared.

“Global consolidation of results: use an international set of values where international dollars are used as the basis for the values.” p25

Immanuel Kant has famously stated “Everything has either a price or a dignity.”[3] meaning that either an item can be produced and reproduced by human activity - then it has a price - or if it cannot be manufactured by human activity - then it has a dignity. The concept of 'human dignity' has been articulated only very recently in the history of humankind. In the legal progress of international societies the concept has been transformed into 'human rights' and in a part of the world human rights are legally enforceable and therefore protected. In those parts of the world where market economies exist as the dominant social interaction is has become possible to estimate a price of a human life.

But this should not be understood as an invitation for corporations to allocate prices of living organisms (not even when they are dead or damaged beyond repair) in the books – neither in managerial accounting nor in financial accounting. Only if and when a financial flow has taken place to compensate for the damage inflicted either via a court ruling or via a legal settlement would it be ethically (and financially) correct to use prices for ecological and/or human damage. The only other exception should exist if and when a company intends to pay for damage afflicted and starts to build reserves with the intention to truly pay for damage restoration or compensation.

The VBA playing with managerial accounting and assigning values/prices to human and/or ecological damage without a sincere intention to actually paying up is a cynical smokescreen intended to protect the capitalist practices in big business form law and order.

3 “Everything has either a price or a dignity. Whatever has a price can be replaced by something else as it's equivalent on the other hand, whatever is above all price, and therefore admits of no equivalent, has a dignity. But that which constitutes the condition under which alone something can be an end in itself does not have mere relative worth, i.e. price, but an intrinsic worth, i.e., a dignity.” Kant 1785, Groundwork for the Metaphysic of Morals