

CONVERSATION

Our experts discuss what information investors need and how to deliver it. Robert Outram reports

ACCOUNTANCY is the process of providing investors with information they need to make decisions. Are they getting the right information? Are social and environmental costs and benefits relevant, and, if so, how could they be included?

Those questions were at the heart of a discussion hosted by ICAS and Social Value UK, formerly the Social Return on Investment (SROI) Network, chaired by John Mcleod CA, audit partner at Mazars and convener of the ICAS Accounting Standards Committee. He was also was a founding member of the ICAS Sustainability Working Group, precursor to the current Sustainability Committee.

He asked: "How much rigour is put into the analysis of sustainability data that is reported? What do users want to know and once it's reported, what do they actually do with the information?"



Jeremy Nicholls, chief executive of Social Value International and Social Value UK, made the case for a fundamental change in financial reporting.

He said: "It was always clear that accounts are produced for a notional investor, and that they have to be true and fair. But the motivation for that investor is not necessarily so clear. In practice, the assumption is that the investor wants to make a financial return, although that is not actually stated."

He went on: "There's nothing to stop us changing that assumption... most individual investors are not simply motivated by a financial return. Even our self-interest is more complex than that."

"But we could also specify that accounts should be produced for a different kind of theoretical investor, someone who wants a financial return but who wants that return subject to knowing, reasonably well, that it's not creating substantive social or environmental costs for other groups."

And he said that companies are already exploring ways to value and report on their environmental and social impact, alongside financial performance. He argued: "The possibilities are way beyond what we have seen so far. The challenge for the accounting profession is, 'what will make this happen?'"

George Cobb, group sustainability accountant with energy group SSE and convener of the ICAS Sustainability Committee, explained how SSE had approached the question of "human capital" in its groundbreaking report *Valuable People*.

SSE had developed a new methodology, with the help of advisers PwC, to assess the value of its investment in its people, which came up with a figure of £3.4bn for the group's human capital "stock".

He explained: "What we wanted to do was to understand which factors contribute to human capital, so when it comes to investing in training, or in something else where there isn't a purely financial return, we can see how to value it. Internally, SSE hopes it will make a significant difference to the decisions our HR departments make."

"We decided to apply the 'good enough' principle, in other words what would give us a number with which we could begin? This



JOHN MCLEOD (CHAIR)
Mazars
"What do users want to know, and what do they do with the information?"



ANNE ADRAIN
ICAS
"New developments in reporting are high on the agenda for organisations like A4S"



TOBIAS JUNG
School of Management, St Andrews
"If you work with an organisation, uptake can be increased and costs reduced"



AMY HUTCHINSON
ICAS
"Directors have a responsibility to ... consider factors such as employees' wellbeing"



GEORGE COBB
SSE, and ICAS Sustainability Committee convener
"We decided to apply the 'good enough' principle"



“What we wanted to do was to understand which factors contribute to human capital so when it comes to investing in training... where there isn't a purely financial return, we can value it”

George Cobb



THOMAS GILLAN
Social Investment
Scotland
“We ask firms to think about their environmental and social impact”



JONATHAN LOUKES
Aberdeen Asset
Management
“To explain your business, you have to go beyond the financial information”



JEREMY NICHOLLS
Social Value UK
“The possibilities [in reporting] are way beyond what we have seen so far”



DR RICHARD TIPPER
Ecometrica
“Valuing non-financial factors is often difficult”



DAVID WOOD
ICAS
“There needs to be new thinking on the sort of assurance you can express and the reporting itself”



STUART JEFFORD
PwC
“Many use these [environmental and social impact] valuations to inform strategic decisions”



TARA FRASER
Baillie Gifford
“If we invest in quality companies, it will have an impact in the long term on our returns”



“It will eventually take legislation, but first we have to get to best practice... it’s important to set that aspiration”

David Wood



isn’t our last report, it’s the start of a journey.”

Dr Tobias Jung, head of philanthropy and not for profit, University of St Andrews, School of Management, gave an overview of the academic debate over integrating environmental, social and sustainability reporting in conventional financial reports. He noted that some academics favoured progress towards further integration while others considered it a “wild west” sector.

Dr Jung said: “First, how do we engage organisations on the ground, to persuade them to adopt and adapt these different impact measurements? The second question is about the process because traditionally... this analysis has been something done *to* the organisation... If you move the focus to working *with* the organisation, we have found the uptake can be hugely improved and the costs can be reduced.

“And finally, how do we enable organisations to use SROI to tell appropriate stories? Sometimes reports are produced but then they gather dust.”

Tara Fraser, an environmental, social and governance analyst with fund manager Baillie Gifford, explained that non-financial information could be very valuable from the investor’s perspective and, indeed, plays a significant part in driving investment decisions.

She said: “We believe that if we invest in quality, well-managed, well-governed



“We could specify that accounts should be produced for [an investor] who wants a financial return but subject to knowing that it’s not creating substantive social or environmental costs for other groups”

Jeremy Nicholls

companies, it will have an impact in the long term on our returns. In doing that you need to be able to bring not just the financials, but other metrics, such as environmental and social factors, into the picture.”

Dr Richard Tipper, executive chairman of Ecometrica, which helps businesses to report on environmental issues, said that clients are often seeking competitive advantage through better environmental reporting, but he added that valuing non-financial factors was often difficult.

He said: “How do we calculate the exchange rate between the value of [workforce] skills and a quantity of greenhouse gas emissions? Or the loss of a species? These things are discontinuous, messy and hard to grapple with.”

Stuart Jefford, an environmental economist with the sustainability and climate change team



ROUNDTABLE

◀ at PwC, said: “Whilst some of the organisations, who we’ve worked with to value their environmental, social and environmental impacts, report this information externally, many of them do not, and are primarily using these valuations to inform strategic decisions.”

Thomas Gillan CA heads Social Investment Scotland, which was set up to invest loan finance with social enterprises, looking for both a commercial return and a benefit to society. He said: “As a condition of our investment we ask organisations to think about their environmental and social impact.”

Anne Adrain gave a brief account of the work of the Accounting for Sustainability “A4S” network created under the patronage of HRH Prince Charles, to explore ways in which accountancy could help to promote sustainability in business.

The panel also discussed how the variety of approaches to sustainability and social reporting currently being developed could evolve into best practice and, ultimately, into a set of accepted and consistent standards. Could this eventually become a mandatory element in reporting?

David Wood, executive director, technical policy and practice support, ICAS, said: “It will eventually take legislation, but first we have to get to best practice... it’s important to set that aspiration. And there’s more we can do through things like corporate governance and accountability, through the Corporate Governance codes.”

Amy Hutchinson, assistant director, accounting and auditing with ICAS, noted that existing legislation already went some way towards this: “The Companies Act says that directors have a responsibility to promote the success of their company but also to consider factors such as their employees’ wellbeing.”

The panel also considered the question of assurance regarding social and environmental reporting. Wood was cautious, saying: “There’s an argument that if you move social and environmental information into the annual report, that will be all right because there is already assurance there. But I believe there needs to be new thinking on both fronts: in terms of the sort of assurance you can express on this information, and in terms of the reporting itself.”

As John Mcleod pointed out: “SMEs [small and medium-sized enterprises] are not subject to the same kind of public reporting pressures as listed companies... what will motivate them? Is it purely top down pressure from customers or something more? Can we engender some real care about doing business on a sustainable basis? It’s important, when we promote this agenda, to remember there are other people who don’t necessarily share our view of its importance.”

Jonathan Loukes CA, deputy finance director with Aberdeen Asset Management and a member of the ICAS Corporate Reporting Committee, said that the accountancy profession needs to get to grips with these issues: “To explain your business, you have to go beyond the financial information.”

And Jeremy Nicholls concluded: “The profession has the reputation for being conservative, and with good reason. But I am encouraged by the creativity I’ve seen and the recognition that we need to make a change, and the willingness to engage with the challenge ahead.” **CA**



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Dr Richard Tipper

