Accounting for Sustainability and the Environment in the US: Environmental and Social Reporting

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Abstract

Sustainability accounting and reporting has gained much attention from many U.S. multinationals and their stakeholders. The trend has become more rampant recently and was almost non-existent before the 1970s. It necessitated the research into the overview or historical analysis of sustainability accounting and reporting in the U.S. as the first part of the paper following the introduction. This paper addresses the aspects of sustainability reporting and assurance, starting with a brief analysis of corporate social responsibility and sustainability. It is followed by analyzing several elements of sustainability reporting, standardization, and assurance; sustainability Reporting, guidelines in sustainability reporting, and assurance of sustainability reporting. This study then conducts a survey of sustainability accounting reporting for Five U.S. Companies: 3M, American Express, Citi Group, Exxon Mobil, and Verizon Communication. This paper highlights inconsistencies in sustainability accounting and reporting, emphasizing the importance of third-party assurance and independent verification of major US corporations' sustainability reports.

Keywords: Sustainability Accounting, Sustainability Reporting, Corporate Social Responsibility, Assurance, Environment.

Introduction

Sustainability Accounting has emerged as a necessity for most corporations with the growing investor interest in incorporating sustainability and environmental protection activities in the U.S. The earliest evidence of corporate sustainability reporting in the U.S. can be traced to the 1970s (Guo & Yang, 2014). There have been massive advancements in the reporting of sustainability activities, with the accounting of the value of these activities to the business investments showing its significance (Lee & Chaltegger, 2018). One in every four dollars invested under professional management in the U.S. has been injected into sustainability activities as of 2016 (US/SIF, 2019). Individuals and organizations at different levels, including credit unions, hospitals, foundations, religious institutions, venture capitalists, and public pension funds, have participated in sustainability activities in the U.S. (US/SIF, 2019). *Sustainability* can be defined as any activity that is advanced by a company over and above its legal and business mandate to improve society's environment or social welfare. This paper is a detailed analysis of Sustainability Accounting and

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Reporting in the U.S. and reviews the trends in reporting and the standards used in several publicly listed companies.

Overview of Sustainability and Sustainability Reporting in the U.S.

Sustainability reporting has evolved significantly since it was first documented in the 1970s (Brockett & Rezaee, 2012). The progression is based on the main sustainability issues that have taken center stage in companies' annual reports over the years. The 1980s literature on sustainability accounting reveals that the reporting concentrated on social issues, which evolved into environmental issues in the 1990s. However, in the late 1990s, the focus of sustainability reporting shifted again to social and ethical issues from just environmental issues. Recent sustainability reports reveal no particular trend, but their content has been observed to revolve around sustainability, governance, and accounting in the literature review. According to Thompsons (2007), the literature on sustainability reporting was concentrated on the numerical review of environmental and social disclosures in the reports, with the support of legitimacy and contingency theories. Despite the significant advancements in the accounting-sustainability literature, a review of the 2008 to 2012 sustainability reporting patterns reveals that a pattern is re-emerging.

The future of sustainability reporting is still debatable because of the complexity and technicality of defining it and the format and content of its reporting, which has split the research of accounting sustainability into two separate paths. The first path relied on the critical theory that blames the corporate sustainability issues as emerging from corporate sustainability accounting (Gray, 2010). Because of the vagueness of the definition of sustainability, its necessary supporting accounting treatment remains unknown and unclear. In strict reliance on the critical theory, corporate sustainability accounting has no function and will fade away or be replaced by better structures.

On the other hand, the second path is a management-oriented route that appreciates the significance of management decision-making. In addition, it defines *Corporate Sustainability Accounting* as management tools used to handle multiple decisions from different actors, a variety of managers, and stakeholders. This path believes that sustainability accounting is an emerging trend that is expected to grow into the future. Burritt and Schaltegger (2010) posit that both the critical theory and management decision making paths contribute differently to the development of sustainability accounting and reporting. However, they argue that sustainability accounting should be skewed towards strengthening and facilitating management decision-making.

Sustainability Reporting and Assurance

Corporate Social Responsibility and Sustainability

Despite their individuality, sustainability, and corporate social responsibility are used interchangeably in multiple studies. The earliest definition of CSR in 1989 revolved around running a business sustainably, reliably, and desirably in a manner that values society, ethics, people, and the environment (Anderson, 1989). In 2001, the definition shifted to circumstances where a company performs beyond its legal and business compliance requirements to advance social advancement (McWilliams & Siegel, 2001). At this point, the definition of CSR includes corporate governance, environmental impact, work ethics, and social impact. In 2005, CSR was identified as a subset of sustainability where the former is short-term oriented, while the latter aims at pursuing the long-term goals of a business or corporation (Finch, 2005). The long-term goals of sustainability include attaining the financial and operational requirements and managing its social and environmental to be in line with society's expectations and moral ethics.

Sustainability can be defined as the ability of the present generation to meet their current needs without interfering with the future generation's ability to achieve the same. Also, *sustainability* can be defined as a firm's ability to increase its value while existing as a going concern. Other terms that assist the understanding are sustainable and sustainable development. Being sustainable is the ability to be sustained. On the other hand, sustainable development means the ability to be sustained at a defined level of economic development using the existing natural resources without exhausting them or causing significant changes to the ecological system.

Sustainability Reporting, Standardization, and Assurance

Sustainability Reporting: The significance of sustainability and sustainability development to society is not in question to most; however, proper reporting must be developed and easily disputable. The need to clearly depict how a sustainable business or society should be operated makes reporting sustainability accounting seem very complicated. Buhr (2007) posits that the sustainability reporting process starts with employee reporting, environmental reporting, triple bottom line reporting, and sustainability reporting.

The growing interest in sustainability activities makes its reporting very significant. Sustainable, responsible investments grew exponentially between 1995 and 2005 from $639 billion to 2.29 trillion or approximately 258.37% (Social Investment Forum: 2006). It can be compared to the growth in professionally managed investments in the same period from 7 trillion to 24.4 trillion or 248.57% (Social Investment Forum, 2006). More recently, the 2017 Report on the U.S. sustainable, responsible, and impact investing identified 12 trillion as having been invested in various SRI investment strategies within the U.S. Between 2016 and 2018, SRI investments grew by 38% from 8.7 trillion (US/SIF, 2019). One-quarter of the professionally managed investments, or approximately 26%, have been invested in SRI investments (US/SIF, 2019).

Guidelines in Sustainability Reporting: Reporting sustainability issues is a key in sustainability reporting. Thus, multiple public and private initiatives have attempted to offer guidance on effectively performing sustainability reporting. Among these institutions is the Global Reporting Initiatives (GRI), which develops and distributes the acceptable Sustainability Reporting Guidelines. The United Nations Environment Programs and CERES established the GRI, which later became independent in 2002 (Villiers, 2017). In addition to the GRI, other institutions include the International Standards Organization (ISO), Account-Ability, The World Business Council for Sustainable Development (WBCSD), the United Nations Global Compact, and the Sustainability Integrated Guidelines for Management Project (SIGMA). Also, an Australian and two Canadian sustainability initiatives have been involved in developing the guidelines for sustainability reporting.

Assurance of Sustainability Reporting: GRI recommends but does not require external assurance for sustainability reports to support the internal resources dedicated to the same efforts (GRI, 2019). The definition of external assurance, according to GRI, revolves around any activities that have been designed to generate conclusions about the sustainability reports and information therein. Also, it can be defined as any activity that develops publicized conclusions about systems or processes that define the contents of the sustainability report, like the application of the principle of materiality (GRI, 2019; Schaltegger et al., 2006). External assurance providers and external individuals and groups have become necessary to the sustainability report preparers as one of the most reliable approaches to external assurance. Individuals and groups conducting external assurance should be competent and external to the assurance providers.

Necessary Traits of the Assurance for Sustainability Reporting*:* Several qualities are necessary for every external assurance provider to possess for their publicized conclusion to be considered unbiased and objective. The primary requirement for external assurance is that the assurance providers be independent enough to allow their published conclusions on the sustainability reports to be considered objective (GRI, 2019). Secondly, the competence of the assurance provider in the subject should not be questionable to make their publicized conclusion as informed as possible. Also, the assurance engagement should be able to implement quality control procedures. Fourth, the assurance engagement should be documented, systematic, evidence-based, and have a known procedure. Fifth, the accuracy of the information in sustainability reports, whether qualitative or quantitative and the content selection should be used to determine whether the report reflects a balanced and accurate account of the performance (GRI, 2019). Also, the determination of whether the correct guidelines were relied upon by the preparer of the sustainability report to conclude. Lastly, a published report about the conclusions arrived at in the report's assurance must be generated.

Assurance Standards*:* There are assurance standards for reporting corporate sustainability at national and international levels. There are two assurance standards at the international level, including ISAE 3000 and AA1000AS (GRI, 2019). The International Standards on Assurance Engagements ISAE 3000 was developed by a subsidiary corporation of the International Federation of Accountants (IFAC) named the International Audit and Assurance Standards Board (IAASB) in 2003 and updated in 2013 (GRI, 2019). The ISAE 3000 is a general standard for assurance activities except for reviewing historic information and audits. It is based on the assurers' independence and the procedures for collecting evidence. Assurance using ISAE 3000 can only be delivered by a professional accountant in strict compliance with the IESBA Code of Ethics for Professional Accountants (GRI, 2019).

The Accountability AA1000 Assurance Standards is used by companies that rely on the Accountability Principles Standard (AA1000APS 2008) (Accountability, 2003; Accountability. b, 2003). The assurance standard was developed and later reviewed in 2008 by Accountability, an advisory and think-tank corporation that implements AA1000APS Principles in external assurance engagements (GRI, 2019). The principle ensures that the assurance engagement is based on whether the firm and its sustainability reporting address stakeholder concerns.

Survey of Sustainability Accounting Reporting for Five U.S. Companies

This survey will review the existence of sustainability reports or CSR reports in the companies' annual filings. In addition, several factors about the report will be reviewed, including the first date of reporting, the guidelines used, and reporting assurance used.

Different websites mention that the earliest sustainability report or its equivalent published by *3M:* 3M was before 2006 (US/SIF, 2019). However, according to its website, 3M has published annual sustainability reports since 2011 (3M, 2019). The report represents the state of sustainability in the company's operations on a multinational level and touches on job seekers, employees, sustainability media, and customers. The company's mission is to enhance every life, and the sustainability reports communicate its efforts towards attaining it. The report's development relies on Accountability's Assurance Standards (AA1000) and G3 Sustainability Reporting Guidelines (3M, 2019). Bureau Veritas conducted and published the external or third-party assurance for 3 M's 2019 Sustainability Report (3M, 2019).

American Express: The American Express has published Corporate Social Sustainability Reports since 2007/08 (American Express, 2018). Based on the 2017/18 CSR reports of American Express, the sustainability reports have been developed using the (Global Reporting Initiative) GRI guidelines. Thus, the report contains several key sustainability issues addressed under various spheres of service: promoting responsible business practices, delivering for partners and customers, serving our colleagues, and responsibly managing operations (American Express, 2018). The sustainability reports of American Express have no third party or external assurance(US/SIF, 2019).

Citi Group: The entity has issued sustainability reports titled - Corporate Citizenship Report since 2000. Based on Citi Group's latest Corporate Citizenship Reports in 2018, the Global Reporting Initiative: Core Option guidelines were relied upon to develop them (Citi, 2019). Also, the U.N. global impact and the U.N. guiding principles on Business and Human Rights frameworks were complied with in developing the corporate citizenship report. A stakeholder of Citi Group named Ceres initially provided third-party assurance of the Corporate Citizen Reports (US/SIF, 2019). Sustainable growth, affordable housing, climate risk, future of work, valuing diversity, financial inclusion, volunteerism, human rights, and prioritizing safety are among the critical sustainability issues highlighted in this report (Citi, 2019).

Exxon Mobil: The company has been publishing corporate citizenship reports annually since 2006. The sustainability reports have been developed and published strictly following the IPIECA guidelines and indicators. In addition, the reports followed the strict guidelines of the American Petroleum Institute and the International Association of Oil and Gas Producers. The latest sustainability report by Exxon Mobil is based on 260 data points scattered around six focus areas: climate change, environmental performance, employee relations, human rights, philanthropy, corporate governance, and financial performance (Exxon Mobil, 2017). Lloyd's Register Quality Assurance (LRQA) has been relied on by the company to provide external assurance services for their Corporate Citizenship Reports (Exxon Mobil, 2017). The sustainability efforts of Exxon Mobil have led to its recognition among the top 50 of Corporate Responsibility Magazine's Best Corporate Citizens in both 2017 and 2018.

Verizon Communication: Verizon has been publishing annual corporate responsibility since the year 2004, with its latest being released in 2018 (Verizon, 2019). The GRI Index guidelines were relied on in the development and reporting of the 2018 corporate responsibility report. Ernest and Young provided external assurance services to Verizon’s 2018 corporate responsibility scope 1, 2, and 3 reports (Verizon, 2019). However, the external assurance of the sustainability reports were secondary to the internal reviews at Verizon Communications. Verizon has used its technology to attempt to resolve the issues under the United Nations Sustainability Development Goals as its sustainability efforts. Verizon Communications focus areas on sustainability includes growth and customers, performance excellence, and trust (Verizon, 2019).

Survey Results

The survey results reveal several factors about sustainability reporting in the US. First, all the five major US multinationals selected in the survey published annual sustainability reports showcasing their contribution to environmental, social, and geological issues affecting society for at least ten years. Apart from American Express, the other four multinationals that were surveyed submitted their sustainability reports for external assurance by an independent party. The GRI standards are the most commonly used guidelines in preparing the surveyed sustainability reports, which create elements of uniformity. The surveyed reports were generated by the AA1000, the UN global impact, and industry-specific reporting standards.

Conclusion

This report raises awareness of the non-uniformity in sustainability accounting and reporting, which hinders the accuracy, comparability, and effectiveness of sustainability accounting reporting. The report reviews the evolution of the definitions of sustainability and corporate social responsibility and the significant issues in sustainability reporting because of the growing stakeholder interest in reporting sustainability activities. Multiple initiatives have been advanced toward generating standards and guidelines for sustainability accounting reporting and its third-party assurance. The surveyed firms reveal the growing significance of sustainability reporting to their businesses, which has been progressing exponentially recently. In addition, the significance of the third-party assurance of the sustainability reports of major US multinationals.

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