

SUSTAINABILITY ACCOUNTING AND REPORTING IN THE POST-COVID TIMES

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Abstract Sustainability is a complex framework for companies to meet environmental, social and governance (ESG) goals together. The focus should be on achieving medium- and long-term goals, and the environmental and social impacts of corporate operations should also be examined. Sustainable accounting and green controlling are the support of the management of a sustainably managed company, which means the accountability of the management on the one hand, and the applicable asset system and reporting on the other. Following and reporting on sustainability goals is no longer a voluntary commitment for companies, rather it is compulsory for them to adapt. With effect from 2024, the EU standard on ‘non-financial reporting standards’ will come into force. The development of this EU investment classification system, known as the ‘taxonomy’, is being monitored by investors worldwide. The taxonomy, standards and implementation will certainly generate controversy. In this study, the author describes the importance, essence and content of sustainability accounting and green controlling, as well as the reporting obligation and its tools. The author also clarifies which parameters define the mandatory reporting framework and which are the most important elements.

Keywords:
sustainability,
ESG,
green controlling,
report,
taxonomy

1 Introduction

Pollution, climate change, the impact of increasing demand for raw materials on the environment, and the transition from a linear economy to a circular economy are all challenging issues and tasks (Koloszár, 2021). After the Industrial Revolution, an increasing number of global problems arose in terms of sustainability, although there were researchers who paralleled the pursuit of sustainability as the opposite of development. In addition, the undeniable ecological and economic crisis of the late 20th century has led to people rethinking their ideas about growth (Mitcham, 1995, Gácsér, Szóka, 2021).

Linking the concept of sustainability and development has been widespread since the 1980s. The term 'sustainable development' was first used by the International Union for Conservation of Nature in its World Conservation Strategy. The work of the World Commission on Environment and Development, better known as the Brundtland Commission, was a real milestone. The Commission presented its report in 1987 titled 'Our Common Future', in which it stated: 'Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.' (World Commission on Environment and Development, 1987).

The concept interprets sustainable economic, ecological and social development in unity. The definition of sustainability used today is a complex framework for companies to meet the goals of the economy, environmental awareness and social justice at the same time. During the operation of a company, its focus should be placed on the realisation of medium- and long-term goals instead of short-term, and the environmental and social impacts of the company's operation should also be examined. Based on this, companies must now meet the needs of all their internal and external stakeholders without compromising the satisfaction of future needs. However, in the interests of sustainability, the goal is to achieve excellent social, environmental and economic (financial) performance, which is not easily measurable, as financial targets are linked to measurable short-term metrics, while sustainability metrics look at long-term data sets.

Pankotay et al. (2020) highlight the lifecycle characteristics of IT assets as one of the factors of sustainability. They address the issues of development contra e-waste and the issues of long-lifecycle contra work efficiency. Unlike the lifecycle analysis of a marketing-type product, the 'green' aspect also appears in the lifecycle in addition to the preparation, production, sales and use phases, which is also required by the EU (Directive 2014/24 / EU) (Pankotay, et al. 2020).

Today, the ESG is a reporting framework, although originally it was only designed for investors, with the original purpose of evaluating the sustainability information published by listed stock exchange issuers. Its meaning has expanded and it no longer just satisfies the curiosity of investors. ESG stands for Environmental, Social and Governance. Within the ESG framework reports should cover these areas or pillars (more in the continuation). The goal of the ESG is to monitor the non-financial risks and opportunities inherent in the day-to-day operations of companies. Today, governments, citizens and companies alike are increasingly interested in sustainability issues. Customers and employees are increasingly looking at what products and services they buy and they prefer both the product and the company to be 'green'.

Let us take a brief look at what these three pillars contain. 'E', i.e. Environmental, is the most complex pillar as it contains several criteria, e.g. greenhouse gases, air, water and soil pollution, i.e. emissions and their polluting effects. These include resource-use issues; the use of virgin or recycled material in production, or the economical treatment of water, energy, forest (timber), and the size of the ecological footprint. Using fewer resources obviously reduces the cost of producing a product and makes the organisation more competitive. Proactivity appears here, for example, if an investment is already planned to be environmentally neutral and/or it uses climate-friendly technology. This in itself can be a long-term competitive advantage. In order to compare companies, it is not enough to use indicators, instead it is necessary to look at the relative indicators for comparability (for example, by dividing the amount of water used by the number of products) and it is also necessary to know the absolute value (larger companies can retain more harmful substances in tonnes). It is even better to compare the indicators to a benchmark, such as an industry average (Herremans, 2020). In the 'S' i.e. Social pillar, companies report on how they take care of the development of their employees, the number of injuries (accidents), the number of training hours, the number of breaches of codes of conduct, the number of minorities in senior management positions, and their

personnel practices. This issue has wide labour market boundaries, which are also closely intertwined with the Fourth Industrial Revolution and digitalisation (Szabó et al. 2021). The 'G' i.e. Governance pillar is about shareholder rights, board diversity and management compensation. It is a question of the extent to which the intentions of owners and management are in line with sustainability goals. What does this mean in corporate governance? The work of management, and thus of finance, accounting and controlling, is also changing, as instead of focusing on short-term financial results, sustainability aspects must be integrated into analysis and corporate governance in the future (Deloitte, 2021).

2 The importance and content of sustainability accounting and Green Controlling

The definition of sustainability accounting is still undefined; it is an inhomogeneous, multidisciplinary and constantly evolving and current field of research. Implementing the need for sustainability has become a common and popular research topic since the 1990s, with the creation of an accounting system for this purpose. The results of sustainability accounting include a range of regulatory frameworks, philosophical trends, training programmes and empirical research that have expanded the literature. Sustainability accounting is really a framework whose primary purpose is to measure organisational performance in terms of sustainability. This performance measurement means that, based on data, the accounting framework must also report on organisational performance from an ecological, social and economic perspective. The primary purpose of the sustainability accounting framework is to define the principles that guide the recording and reporting of accounting information from a sustainability perspective (Lamberton, 2005).

Based on the research of Gácsér and Szóka (2021), sustainable accounting consists of two parts. It is primarily used to measure, analyse and report on the social and environmental impacts and economic sustainability of companies' activities, and secondly, it is a set of principles and guidelines (standards) for the implementation the sustainability from an economic point of view. As part of this, companies must prepare a report on how they have used social and environmental resources and what impact this has/will have on society and the economy (Szóka, Gácsér, 2021).

Sustainability and sustainable accounting have developed partly under legal (political) pressure and partly under social pressure. The European Union has developed a system that lists economic activities that are classified as sustainable, this is a taxonomy. The environmental objectives of the EU taxonomy include climate protection and adaptation to climate change, ensuring sustainable resource management, reducing pollution and maintaining biodiversity. However, in addition to the environmental aspects, it also examines social and governance aspects (non-corruption, compliance with the law, etc.).

Thus, it can already be seen that the aim is to provide EU funding to companies which meet the standards for sustainability goals (and, of course, those that compiled the reports). Compliance with sustainability will be demonstrated by supplementing traditional calculations with a risk and scenario analysis (that impacts and consequences that have an impact on the environment, the climate, and how the company can influence them must also be addressed). It is recommended that companies include the expected negative effects of climate change on the company in the assessments. If these happen, the company will have to adapt.

The purpose of the method called ‘Green Controlling’ in German and ‘Environmental Management Accounting’ in Anglo-Saxon literature is somewhat different. The aim is to provide comprehensive support for sustainability management, i.e. the development and implementation of a corporate policy that encompasses the areas of the environment, the economy and society. Strategically relevant tools are the eco-oriented analysis of opportunities and challenges, activity-based costing, lifecycle calculations, the system of eco-accounts in the operational (supply) area, collection of environmental costs (waste, CO₂ emissions), ecological footprint analysis, ecological sensitivity testing, etc. The latter is actually a scenario analysis that considers the opportunities and risks. It is important that economic calculations cover an appropriate period and do not only focus on short-term data and factors. Thus, with relevant data, the analyses already support environmentally conscious decision-making through a variety of cost allocation, investment economy, and performance evaluation tools and methods, hence sustainability will be part of the corporate strategy (Szóka, 2022; Főfai et al. 2021).

3 Reporting obligations and tools

The purpose of the ESG is to analyse the environmental, social and economic aspects of the non-financial opportunities and risks inherent in companies' activities. What exactly does this mean? The answer is not so simple because the ESG reporting obligation is still unclear in many jurisdictions and there are several standards (e.g. GRI, IIRC and SASB¹). The Value Reporting Foundation will soon be consolidated with the ISSB. Furthermore, the complexity of this is daunting for small and medium-sized enterprises (SMEs). This is supported by the fact that the small business sector contains strongly heterogeneous enterprises. Within this, the purpose of companies operating in the micro-enterprise category is radically different from the financial and economic theory, therefore their evaluation should be treated separately (Koroseczné et. al. 2015). Nevertheless, it is expected that standards will be developed for these companies and that the SMEs that prepare the report will receive EU funding.

The EU Taxonomy defining the ESG is a sustainability criteria system applicable from 2022, and the CSRD (Corporate Sustainability Reporting Directive – sustainability-reporting framework) will be applicable from 2024 onwards.

Let us first take a look at which companies this applies to. From 2022, larger listed companies that have more than 500 employees and/or whose balance sheets total more than EUR 20 million or have sales revenue of over EUR 40 million will be required to report. From 2024, instead of the top 11,700 large companies, 49,000 companies will have to follow detailed EU sustainability reporting standards, as this will also apply to SMEs trading in their securities on regulated markets. The development of standards will be the responsibility of the European Financial Reporting Advisory Group (EFRAG), and the proposed directive proposes that these standards will be developed by October 2022 and October 2023 respectively (first for large enterprises and then for SMEs).

What does the report contain? It first covers the 'eligible' part of the revenue and costs of large companies. The next step is to carry out a detailed screening of the activities considered relevant to see if they can actually be considered sustainable according to the EU Taxonomy criteria system; this is called 'alignment'. This is true

¹ GRI: Global Reporting Initiative, IIRC: International Integrated Reporting Council, SASB: Sustainability Accounting Standards Board, ISSB: International Sustainability Standards Board.

if it contributes significantly to the achievement of at least one environmental objective, does not violate other environmental objectives and complies with occupational safety and human rights conditions (EUR LEX, 2020).

Of course, not all ESG factors apply equally to companies. For example, for a bank, greenhouse gas emissions are not as important as for a manufacturing company. Differences in involvement between sectors are called materiality. Of course, every company reports on its material factors. Since measured data is required, material factors are determined based on financial materiality, i.e. ESG factors that may affect a company's financial performance should be considered material. It can be expressed financially, e.g. unexpected additional costs were incurred, penalties were paid, and brand value or sales decreased, etc. There may be several reasons for this. On the one hand the most important aspect is that in terms of investors and buyers, we are no longer green enough, i.e. our activity is no longer sustainable, while on the other, plain materiality is not enough; 'double materiality' is prevalent. This means that in addition to the factors that are considered financially significant, the factors that are considered socially significant should also be considered in the reporting (Deloitte, 2021a). The latter is more characterised by the GRI, whereas the SASB is limited to financial materiality. The Alliance for Corporate Transparency 2020 survey showed that companies in Central and South-Eastern Europe prefer to consider the GRI framework when publishing their reports (70%) (Alliance for Corporate Transparency, 2020, p.12).

As previously mentioned, there is not yet a standard ESG framework – only the main areas have been identified. Companies decide what the report contains based on the standards of the sustainability report they choose. The framework chosen for the report and the materiality matrix determine what data needs to be collected, of course, these need to be collected in order to produce the report. This is not always easy, as different indicators may have different reporting boundaries. A good example of this is the use of office energy, heating and electricity. When considering energy consumption, both can be Scope 1 or Scope 2² greenhouse gas emissions, depending on whether the energy is produced in-house (an on-site boiler) or sourced from a service provider (district heating) Deloitte (2021b). Leaving aside this example, it will still be difficult to obtain data, especially at the start, therefore it is

² Scope 1: greenhouse gas emissions from business units controlled or owned by the company. Scope 2: Emissions from the production of heat, electricity, cooling or steam purchased by the company.

necessary to find and identify the data sources or the persons or departments responsible for them.

A coordinate system is thus created. On one axis of the matrix is the question: 'How important is it to stakeholders?' (Importance to Stakeholders), while the other axis has the question: 'How much does it affect business success?' (Influence on Business success), and ESG KPIs are placed in this coordinate system. There is no single list of KPIs, as it depends on the standard and the activity, of course, and one will be examined by a producing company and the other by a bank.

Without claiming completeness, let us take a look at a couple of indicators. An economic indicator can be, for example, sales revenue, its growth or the amount of taxes paid. Environmental indicators, e.g. the amount of CO₂ emissions, amount of waste, kilowatts of energy used. Social indicators, e.g. staff turnover, number of injuries (accidents), or the number of training hours. Once these have been considered, it is necessary to determine their place in the matrix, their impact on the value of the company, the planned value and the initiative or project with which the planned value is to be achieved. The standard helps to define reporting practices and explains how impacts can be identified and evaluated together with their significance³. (Priorities need to be set, not all indicators need to be reported.)

This is no small task, and companies that have it need to define (fix) the data collection process in a document (talk about the data generated or an estimate of where, from whom it came, who is the data owner, etc.). As in all areas, it is important that the opportunities offered by digitalisation are used in the preparation of ESG reports. According to Hegedűs and Benyó (2020), all programmes that support audit work prioritise Cloud applications, and by applying the workflow, the process becomes more transparent and better organised. Of course, this no longer only applies to the audit area, but to almost every area of our lives, as the existence of Cloud storage increases efficiency, helps the home office, and overcomes geographic distance. Digitisation has several additional benefits in addition to the use of Cloud storage, which can also facilitate compliance with ESG, such as digital signatures and authentication (Hegedűs, Benyó; 2020).

³ The GRI classifies standards into the groups, general, sector-specific and topic-specific.

4 Summary

Defining and analysing indicators and preparing a report is a huge task which requires a good team and knowledge. Knowledge can be acquired through various courses, diligence and research, however, nowadays IT knowledge is essential for these. The lack of a skilled IT workforce greatly hinders the stable operation of the economy (Hegedűs, 2021). The corporate team (accounting, analysis, controlling, auditing) must also have knowledge, hence it is important to prepare. It is necessary to understand what ESG is, what standards exist, which standard imposes which requirements on the company and what aspects are relevant. Those responsible must be assigned (data owner) and the appropriate information provided. It will soon be possible to say that ESG – compliance with it – will be part of everyday life, however, it will only work if the appropriate resources are available (people, knowledge, hardware, software).

The control environment for the ESG reporting process needs to be developed and, of course, it have to be analysed and monitored. Consideration of sustainability in business operations will be achieved when the mindset changes of management and owners. Revenue, profit and cash are important, however, work can only be sustainable if a sustainable medium- and long-term perspective emerges instead of short-term profit maximisation. In addition to the economic aspects, the environmental and social impacts of corporate operations must also be analysed. This will reduce the business risk and may make an organization more attractive to investors and other stakeholders. This, however, is easy to say, but much harder to implement. Taxonomy and clarification of detailed regulation will take time and is sure to generate controversy. Companies want less stringent regulations and longer application deadlines, and legislators are pushing for stricter regulation. It is also a political tool and an issue. In the author's view, compiling sustainability reports is seen by companies as a nuisance and not an option – even in the European Union. It will be a few more years before EU uniform standards are established and operational, and even then it is unlikely to be worldwide.

Note

JEL codes: Q56, L10, F60, M42

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