VOLUNTARY SUSTAINABILITY REPORTING: A CASE EXPLORING ETHICAL, REGULATORY, AND STRATEGIC CONSIDERATIONS

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CASE DESCRIPTION

The primary subject matter of this case concerns ethical, regulatory, and strategic considerations that may arise relating to voluntary sustainability reporting by business organizations. The case explores the issues from the perspective of accounting professionals and corporate decision makers involved in the reporting process and presents ethical dilemmas that must be addressed. Secondary, the case provides opportunities for students to gain knowledge and understanding of an important global reporting trend and to research standard-setting and regulatory efforts relating to the development of sustainability reporting standards and guidelines.

The case has a difficulty level of four to five and can be taught in approximately 40 minutes. The case can be assigned as an individual or group project. Approximately two hours of outside preparation is necessary for students to address all the questions in a group setting. The case can be utilized in an upper division accounting course to help students gain awareness of an important global reporting trend and to enhance students' understanding of ethical issues that may arise relating to sustainability reporting. The case can also be utilized in an accounting ethics course focusing primarily on ethical concerns of accounting professionals, or in a graduate course focusing primarily on the research and analytical aspects of the case. This case and the related independent questions can be utilized to enhance students' understanding and awareness of ethical issues and related professional and regulatory requirements, as well as their analytical, research, and communication skills.

CASE SYNOPSIS

Sustainability reporting has become an important global reporting trend. While in some countries, sustainability reporting is required by public companies, in the U.S., reporting is largely voluntary. Currently, the majority of large U.S. companies and some small and midsize companies voluntarily issue sustainability reports. Even though global sustainability reporting guidelines such as those issued by the Global Reporting Initiative (GRI) exist, and new guidelines such as those currently being developed by the U.S.-based Sustainability Accounting Standards Board (SASB) are emerging; the scope, detail, and format of the information presented in formal sustainability reports vary considerably among companies. Many companies choose to report information only on selected environmental and social issues and provide primarily qualitative information. Accounting professionals can provide important support for sustainability reporting, but may encounter ethical dilemmas that need to be addressed.

This case focuses on ethical concerns encountered by a new staff member of the sustainability reporting group of a fictitious company. The case scenario includes highly optimistic

projections relating to environmental issues made by the company's sustainability director that pose concerns for the new staff member. The case enhances students' awareness of the sustainability reporting trend and the potential ethical concerns that may arise, and requires consideration of pertinent professional ethics rules and analysis of related factors. The suggested assignments include a set of ethics-related questions and a set of questions requiring additional research and analysis of sustainability-related standards, career-opportunities for accounting professionals, and the benefits and challenges for reporting companies. The case can be utilized in an accounting ethics course or in another upper division financial or graduate accounting course, and may enhance students' analytical, research, and communication skills, as well as their awareness of related ethical issues and knowledge of professional ethics rules.

INSTRUCTORS' NOTES

Teaching Strategies

Accounting professionals must adhere to the highest level of ethical conduct and comply with professional ethics rules set by organizations such as the American Institute of Certified Public Accountants (AICPA) and State Boards of Accountancy. During their professional careers, accounting professional may encounter ethical dilemmas in various contexts. Exposure to ethical dilemmas in a class setting and careful consideration of the related issues, such as the interests of stakeholders, within the context of ethics rules may be useful to help students prepare for the accounting profession. Students should recognize that ethical considerations and potential ethical dilemmas may arise not only related to financing reporting, but also in non-traditional reporting situations. This case presents such a situation in the context of sustainability reporting, which represents a continually growing trend in the U.S. and globally. As companies perpetually enhance formal sustainability reporting related to their environmental and social impact, increasing involvement by accounting professionals will become necessary.

This case deals with a fictitious consumer products company that has implemented significant sustainability-related programs and is voluntarily publishing a formal sustainability report. The company's report includes information about its mission, profile, products, and corporate governance; and the impact of its activities on employees, society, and the environment. Elena, a new member of the accounting/sustainability reporting staff with whom students are asked to identify, notices that in the draft of the current year sustainability report, the five-year projections relating to CO_2 emissions and water usage are extremely optimistic and unsupported by engineering findings. Her supervisor, the director of sustainability, is not receptive to changing the inaccurate projections. This creates an ethical dilemma for Elena.

This case can be used to enhance students' awareness of ethical issues that may arise in the context of sustainability reporting; and provides students with an opportunity to review pertinent ethics rules, consider various options to resolve the issues, and research current sustainability reporting guidelines. The case also can be used to spark students' interest in the continually growing trend of formal reporting of the comprehensive impact of organizations' activities on the environment and society, as well as on profit.

Two sets of suggested questions are provided. The first set focuses primarily on the related ethical issues of the case and requires that students consider professional ethics rules. The second set requires additional research and analysis of the related sustainability reporting standards and current efforts by standard setters and regulators to develop industry-specific standards. The majority of the questions are independent, providing instructors with the flexibility to assign selected, or all of the questions. The case can be addressed in a group setting, or assigned as an individual student project. In-class discussion of the case requires about 40 minutes. The time needed for detailed in-class discussion of students' findings varies depending on whether student presentations are required.

SUGGESTED ASSIGNMENTS

Pretend that you hold Elena's position and address the specific questions assigned by your instructor. Be brief and to the point and properly cite any sources that you are quoting or paraphrasing.

Questions Relating to Professional Ethics

1. What ethical issues does Elena face? What factors should she consider?
2. What reporting issues does Elena face?
3. What professional ethics rules and guidelines should Elena consider? Be specific and cite specific ethics rules as support.
4. Consider Alfred's assertions regarding the optimistic projections of the future reductions in CO_2 emissions and water usage. Examine each assertion and consider its validity.
5. Assume that reporting of highly optimistic estimates of future reductions in CO_2 emissions and water usage does not violate specific reporting and professional ethics rules. Does this mean that Elena need not pursue the matter any further?
6. If you were in Elena's position, what would you do?

Questions Requiring Additional Research and Analysis

1. The company is considering utilizing the GRI guidelines as a basis for preparing future sustainability reports. Retrieve and review the G3.1 guidelines available at www.GRI.org, address the following questions, and briefly summarize your findings.

a. What application levels may be utilized, what issues must be reported across all levels, and what are the primary differences among the different levels?

b. Determine whether version G3.1 of the GRI reporting guidelines indicate principles or criteria that should be used for estimates or projections. Briefly summarize your findings and indicate whether, in your opinion, the company's projections are consistent with these guidelines.

2. Research the current status of the Sustainability Accounting Standards Board's efforts to develop industry-specific reporting standards (SASB.org) and provide a one-paragraph synopsis of their progress.
3. Research the career choices that are available to accounting professionals interested in sustainability reporting.
4. What benefits and challenges may arise for a company that issues a formal sustainability report?

SUGGESTED ANSWERS TO QUESTIONS

Questions Relating to Professional Ethics

1. **What ethical issues does Elena face? What factors should she consider?**

Elena is a new employee who wants to make an important contribution to her company's sustainability reporting practice. She is fairly inexperienced in dealing with conflict involving a superior and encountering this issue so early during her career creates an ethical dilemma for her. The ethical issues that Elena is facing is whether she should continue to pursue the matter of the highly optimistic estimates of the company's future reductions in CO_2 emissions and water usage, or refrain from doing so.

Prior to deciding on a course of action, Elena should consider the following factors and issues: (a) The accuracy of the engineering report and whether the report contains any information that will help her assess the margin of error in the engineering projection; (b) her supervisor's potential motivation with respect to his optimistic projections; (c) her ethical responsibility, both professionally and personally, and the possibility for violating a professional ethics rules and/or her own personal perception of integrity; (d) whether pursuing this issue can affect the reporting outcome; and (e) the effect on her position within the company.

2. **What reporting issues does Elena face?**

Elena must consider whether the inaccurate projections are significant in relative terms and potentially would mislead the company's stakeholders. The specific reporting issues that Elena faces are objectivity, faithful representation, and conservatism. While these concepts and principles are part of the Financial Accounting Standard Board's (FASB) conceptual framework (FASB, 2010) and specifically apply to financial accounting and reporting, they can also be considered relevant to any official communication with financial statement users and other stakeholders. Similarly, objectivity and lack-of-bias represent essential characteristics of accounting professionals and the information they provide.

3. **What professional ethics rules and guidelines should Elena consider? Be specific and cite specific ethics rules as support.**

Elena is planning to become a licensed CPA and likely will become a member of the American Institute of CPAs (AICPA); thus, she could consider the AICPA's professional conduct requirements. The section that especially applies to the current issues is section No. 102 'Integrity and Objectivity.' Section 102 states that "In the performance of any professional service, a member shall maintain objectivity and integrity, shall be free of conflict of interest, and shall not knowingly misrepresent facts or subordinate his or her judgment to others" (AICPA, 102, n.d.). In addition, Elena should consider the ethics rules of the state board of accountancy in the state in which she will become licensed as a CPA. Furthermore, Elena could also refer to the Institute of Management Accountants' IMA Statement of Ethical Professional Practice. Part IV, 'Credibility' emphasizes that members of the IMA have a "responsibility to communicate information fairly and objectively" (IMA, n.d.). Furthermore, Elena should also refer to her company's code of conduct and diplomatically refer to it in her discussion with Alfred.

4. **Consider Alfred's assertions regarding the optimistic projections of the future reductions in CO_2 emissions and water usage. Examine each assertion and consider its validity.**

Alfred made four assertions to explain why the projected reductions in CO_2 emissions and water use that will be reported in the current year sustainability report need not be revised.

Assertion (1). Alfred justifies the highly optimistic projections by stating that estimates inherently are inaccurate. While the statement generally is true, his assertion is invalid because the projections shown in the draft of the sustainability report are significantly higher than the engineering projections, which are based on current conditions and processes. Elena should carefully examine the engineering report and try to assess its accuracy, if possible. She may want to speak to the personnel who developed the engineering forecasts in order to gain additional insights.

Assertion (2). Alfred's statement that sustainability reporting is voluntary and that financial reporting rules do not govern sustainability reporting is correct. However, companies have a fiduciary responsibility to stakeholders and this includes the responsibility to provide information that is free from intentional misstatements. Users of the company's sustainability reports will tend to expect the same level of diligence in the preparation of sustainability reports as they do related to financial reports and tend to rely on the information presented. Thus, Alfred's assertion is invalid.

Assertion (3). Alfred's assertion that overall the company is very conservative is not pertinent to the issue at hand. In fact, excessively conservative estimates may also result in misstatements and decrease the usefulness of the information. Moreover, conservatism in one area may not be indicative of conservatism in other areas. Hence, Alfred's assertion is invalid.

Assertion (4). Alfred stated that the company has already publicized the expected reductions in CO_2 emissions and water usage consistent with the report draft and any changes would confuse stakeholders. This assertion is invalid. The fact that the company has already publicized the highly optimistic projections does not preclude the company from revising the information and reporting a less biased estimate. Clear statements and explanations likely will not confuse the report users.

5. **Assume that reporting of highly optimistic estimates of future reductions in CO_2 emissions and water usage does not violate specific reporting and professional ethics rules. Does this mean that Elena need not pursue the matter any further?**

Even if no financial reporting rules or specific professional ethics rules are violated, Elena may feel compelled to further pursue the issue. Elena should base her decision of whether to pursue the issue on two primary determining factors (a) whether reporting of the optimistic projections would potentially mislead information users and (b) whether she perceives that her decision and behavior are consistent with her own personal perception of integrity.

6. **If you were in Elena's position, what would you do?**

Prior to deciding on a course of action, Elena should consider the following factors and issues: (a) The accuracy of the engineering report and whether the report contains any information that will help her assess the margin of error in the engineering projection; (b) her supervisor's potential motivation with respect to his optimistic projections; (c) her ethical responsibility, both professionally and personally and the possibility for violating professional ethics rules or her own perception of integrity; and (d) whether pursuing this issue will potentially change the reporting outcome.

The answers to these questions will help her decide what she should do. If she decides to further address the issue, she should be fairly certain of the facts and perhaps consider bringing the information to the attention of the manager of the engineering department. She may also diplomatically mention to Alfred that reputational risk is involved in publishing overly optimistic information that later will be shown to have been inaccurate. She could point out that this could influence the perceived creditability of the other information – both in terms of the sustainability and financial reporting. Furthermore, if she is convinced that the company's top management is intentionally misleading its stakeholders, she may wish to reassess her choice of employment and plan accordingly. Given her inexperience, the factors involved, and her career plans, she should not react without careful analysis and consideration.

Questions Requiring Additional Research and Analysis

1. **The company is considering utilizing the GRI guidelines as a basis for preparing future sustainability reports. Retrieve and review the G3.1 guidelines available at** www.GRI.org**, address the following questions, and briefly summarize your findings.**
   a. **What application levels may be utilized, what issues must be reported across all levels, and what are the primary differences among the different levels?**
   b. **Determine whether version G3.1 of the GRI reporting guidelines indicate principles or criteria that should be used for estimates or projections. Briefly summarize your findings and indicate whether, in your opinion, the company's projections are consistent with these guidelines.**

a. Consistent with the current GRI G3.1 guidelines (GRI, 2011), three reporting application levels are available – A, B, and C. Levels may be self-assessed, verified by GRI, or third-party verified (i.e., audited). All three application levels require disclosure on the following information:

Profiles disclosures: (a) *strategy and analysis*, which consists of statements made by the company's most senior management and includes disclosures of (for example) key events, failures, and strategic priorities; the information in this category is qualitative in nature; (b) *organizational profile*, which includes qualitative information such as primary brands, countries of operation, markets served, legal form of organization and quantitative information about the scale of operation in terms of number of employees, net revenue, and number of operations; (c) *report perimeters*, consisting of qualitative information such as reporting date and cycle, and reporting boundaries.

Corporate governance, commitments and engagements: this includes qualitative information about the organization's governance structure, the basis for identifying stakeholder groups, and materiality; and quantitative information about governance, and personnel by gender, age, and minority group representation.

In addition to disclosures about a reporting entity's strategy and analysis, organizational profile, report parameters, and corporate governance, all three application levels require disclosure of performance indicators pertaining to economic, social and environmental aspects. The application levels differ with respect to the number of performance indicators reported. Level A requires the greatest amount of detail. Specifically, companies that report consistent with level C must provide information about a minimum of 10 performance indicators (at least one addressing each aspect), those that report consistent with level B must provide information about a minimum of 20 performance indicators, and those that report consistent with level A must report information about all 63 core performance indicators (GRI, 2011). In addition, levels A and B require disclosure of companies' actions affecting labor practices, human rights, and product responsibility.

b. Consistent with the G3.1 Sustainability Reporting Guidelines, "balance, comparability, accuracy, timeliness, reliability, and clarity, along with tests that can be used to help achieve the appropriate quality of the reported information" are necessary (GRI, 2011, 4). Furthermore, the guidelines refer to the use of estimates as follows: "Although such estimates are by nature subject to uncertainty, they can provide useful information for decision-making as long as the basis for estimates is clearly disclosed and the limitations of the estimates are clearly acknowledged" (GRI, 2011, 13). With respect to reliability, the guidelines indicate that "Information and processes used in the preparation of a report should be gathered, recorded, compiled, analyzed, and disclosed in a way that could be subject to examination and that establishes the quality and materiality of the information" (GRI, 2011, 17). In addition, the information should be sufficiently accurate to allow assessment of an organization's performance (GRI, 2011).

The projections made by Norbert Corporation's sustainability director do not appear to adhere to the GRI G3.1 guidelines with respect to reliability and accuracy.

2. **Research the current status of the Sustainability Accounting Standards Board's efforts to develop industry-specific reporting standards (SASB.org) and provide a one-paragraph synopsis of their progress.**

Students' answers will vary depending on the timing of assigning this case. On July 31, 2013, SASB released industry-specific sustainability reporting standards for the "Health Care" industry, on February 25, 2014, for the "Financials" industry, and on April 2, 2014, for the "Technology & Communications industry" (SASB, 2014). The SASB expects to release several other proposed standards for public comment during 2014 with respect to the following industries: "Non-Renewable Resources," "Transportation," and "Services" (SASB, 2014). A number of additional projects addressing other specific industries are currently on the SASB's agenda. Updated information can be found on the Board's website at: (http://www.sasb.org/standards/status-standards/).

3. **Research the career choices that are available to accounting professionals interested in sustainability reporting.**

Accounting professionals can support organizations' sustainability reporting in various capacities. This includes helping management develop and integrate strategies that add value to the company and its stakeholders, while preserving resources; providing information that helps companies coordinate and streamline internal decisions and processes; providing critical support for sustainability reporting; and providing assurance services to sustainability clients. For example, large public accounting firms and some consulting-oriented organizations (e.g., Boston Consulting Group) provide significant sustainability and sustainability reporting support to their clients.

The American Institute of Certified Public Accountants (AICPA), perceives the role of CPAs with respect to sustainability accounting and reporting as follows: "Members in business, industry and government - can add value within their organizations by serving in an integrative role in the value creation process, linking company strategy to sustainability, evaluating risks and opportunities, and providing measurement, accounting and reporting skills. Members in public accounting practice - can add value to their clients by providing services related to the development of sustainable business strategies, sustainability accounting and reporting, and assurance" (AICPA, n.d.).

4. **What benefits and challenges may arise for a company that issues a formal sustainability report?**

Companies that implement sustainability projects tend to achieve more efficient utilization of resources, help preserve scarce resources, and in the long-run derive benefits through related cost savings; enhanced employee commitment; investor and customer goodwill, and supply-chain opportunities. In addition, some companies are able to service a niche by providing sustainability-related goods or services to clients, thus further benefiting from their investment in sustainability.

Formal reporting of a company's sustainability-related efforts communicates information about these activities and their results to stakeholders such as investors, customers, employees and members of the community in which the company operates. Formal reporting satisfies a growing demand for such information. For example, a survey by Ernst & Young of 272 executives found that the business executives perceived customers as the most important stakeholders and audience for their companies' reports on sustainability-related efforts (Ernst & Young, 2011).

Voluntarily issuing high quality sustainability reports may enhance a company's reputation and thus may create a strategic advantage for the company. If the industry in which a company operates is under scrutiny with respect to specific sustainability-related issues, reporting on sustainability will enhance transparency, which will tend to be perceived positively by stakeholders. If an organization's major competitors are not issuing formal reports, the company that is issuing a high-quality report may be viewed as an industry leader.

Sustainability reporting incurs costs, which may be significant in the short-run. However, over time, the benefits likely will exceed the costs. In addition, companies may want to consider the implications of reporting potentially proprietary information that may be utilized by competitors. These potential challenges can be addressed so that the benefits of reporting exceed the related costs.

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