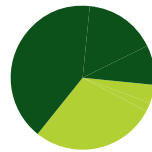


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DOING MORE WITH LESS

Why CPAs Need to Measure and Report on Sustainability Efforts



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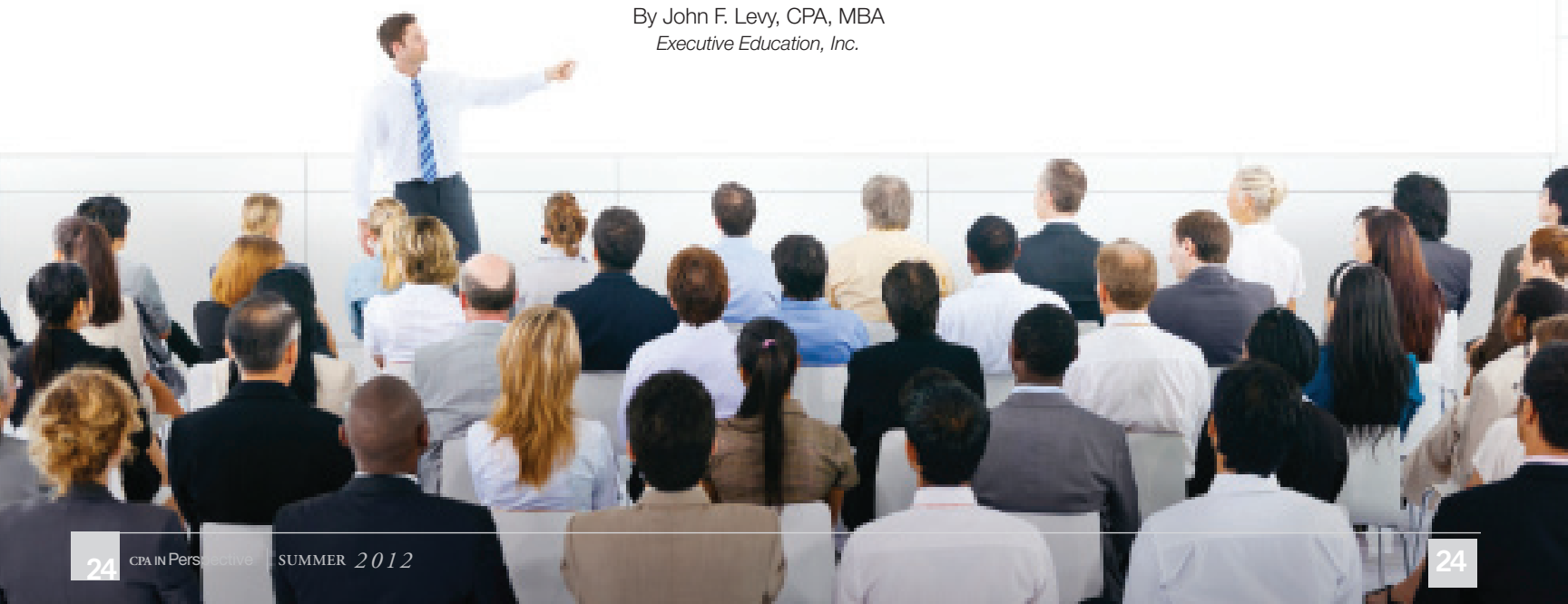
Why CPAs Need to Measure and Report on Sustainability Efforts

I am not a tree hugger or a wild-eyed environmentalist.

My idea of communing with nature is 18 holes of golf on meticulously maintained fairways, greens and unfortunately too often roughs, bunkers and hazards.

However, I have been thinking about what kind of world we will leave to our children, grandchildren and great grandchildren and what we, as CPAs, can do to preserve and enhance our companies and world, our only true lasting legacy.

By John F. Levy, CPA, MBA
Executive Education, Inc.



Efficiencies Mean Lower Costs

Why should CPAs think about sustainability? I believe sustainability efforts will increase company profits by encouraging our organizations to be more efficient; doing more with less. Less waste means not only less pollution but also less cost.

CPAs Need to Measure and Report

CPAs are ideally suited to measure sustainability efforts because we collect and analyze our organizations' information. CPAs should lead efforts to report on sustainability because we have the experience and knowledge to create clear, concise and informative documents.

What is Sustainability?

Sustainability means different things to different people. One major impediment to engaging organizations in serious sustainability discussions is a lack of a common vocabulary. A CEO may hear a proposal to spend money appeasing "treehuggers," while her CFO may really be proposing an initiative to reduce wasteful spending.

A commonly accepted definition of sustainability comes from a 1987 report by the World Commission on Environment and Development. The United Nations convened the WCED to address growing concerns about the accelerating deterioration of the human environment and natural resources. The report, commonly referred to as the Brundtland Report, defines sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Doing More with Less

Successful companies in the 21st century will be more efficient. Companies responded to the 2008 global recession with dramatic workforce reductions and ruthless cost cutting. In a resource constrained world, efficient use of all resources is mandatory. More efficient business processes result in fewer resources used, including energy, water, and raw materials. More efficient resource usage also results in less waste, including air and water pollution and solid waste.

Howard Brown, founder of dMASS, a consulting firm dedicated to reducing waste, often says that nothing goes out the back end that did not come in the front end. Companies first purchase the contaminants and pollutants they emit and their inefficient use not only costs society, it costs the company. Reducing waste and pollutants not only benefits the environment, it also financially benefits the company.

Forward-thinking businesses are now reducing all wastes, even non-toxic or non-polluting waste. Current waste reduction efforts include reducing excess materials, reusing materials if possible, and recycling non-reusable materials.

While these efforts are laudable, they will not lead to truly sustainable prosperity for an individual business nor society as a whole. In particular, while recycling is important, it is only



TONS RECYCLED



TREES SAVED

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part of the solution to environmental or resource problems. Improper or inefficient recycling can be energy intensive, expensive, and may even create more waste.

Accepting the idea that your product is mostly waste might not be easy at first. After all, you have customers who buy your product. Customers are not really paying you money because they love your product. They want the benefits they get from using your product. If they can get those benefits more cheaply, with less environmental impact, and with some cool but completely new delivery method, they will do it.

So where is this drive for efficiency headed? Eventually, someone will find a way to deliver the same benefits that existing products do, but with much less resource mass and energy usage. They will be able to serve customers in a more sustainable manner for less money.

Your company is at risk from game-changing innovations from a fast moving competitor or a start-up not even on your industry's radar screen. The way to avoid a crisis then is to start now down the path of doing more with less.

Measuring Sustainable Practices

The Measurement Dilemma

Shareholders, board members and senior management may understand that sustainability is "good," and they may even believe that it is "good business." However, until we adequately measure and quantify the return on sustainable investments in terms of time and money, many businesses will not fully embrace sustainability efforts.

Accounting for Externalities

Accounting for externalities may be the greatest sustainability accounting challenge. An externality is the benefit or cost to third parties of an organization's action, but not accounted for by the organization. Externalities can be positive or negative.

For example, a famous chef opening a new restaurant in a troubled neighborhood may create a halo effect, attracting more restaurants, art galleries and theaters to the neighborhood. The additional evening traffic reduces crime by having more people on the streets. Lower crime and attracting new hip businesses

increases the neighborhood's desirability for both residents and businesses, increasing property values. Property owners, both commercial and residential, benefit from a positive externality created by the chef and her restaurant.

Most sustainability discussions focus on negative externalities. Instances of air and water pollution are externalities that at one time had no cost. Legislation mandating limits on air and water emissions and imposing fines and penalties transformed these externalities into expenses. Much of sustainability accounting attempts to measure and quantify other externalities, such as greenhouse gas emission, labor abuses, or excess water or energy usage.

Traditional business theory assumes that as production

increases, per unit cost goes down. Negative externalities (waste, pollution, labor abuses, etc.) increase as production increases, so the old theories about cost reductions from mass production may need reconsideration.




**CARBON
REDUCED**

Reporting

Internal Reporting

Goals, objectives, and users' needs should guide internal sustainability reporting. Reports need to be timely, consistent, and actionable. As the information keeper, an accounting department wields great power in sustainability

Sustainability means many things to many different people, but at its core sustainability means building a lasting organization as part of a lasting planet. Sustainability is about long-term thinking. 

efforts. However, simply having information provides no value to the organization. Collect and disseminate information on a regularly scheduled basis.

We have the responsibility to report all information – good and bad. Provide bad news on sustainability efforts quickly to those who can act on it. Unless the information has significant financial implications, distribution to others can be slower and follow appropriate review and consideration of ameliorating actions. Verify good news but get it out to everyone quickly. Even small wins in the beginning stages of a sustainability effort are energizing.

External Reporting

According to the Global Reporting Initiative, an international nonprofit organization encouraging sustainability reporting and providing reporting guidance, 95 percent of the 250 largest companies in the world reported on corporate responsibility (sustainability) activities. Reporting on your organization's sustainability efforts requires you to answer two questions:

- Why are you reporting?
- Who are your intended readers?

Most preparers provide reports because they want to improve processes, describe achievements and communicate with stakeholders. Report types vary considerably; however, GRI

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guidelines are providing more uniformity.

Determine your report's primary users at the onset. If your goal is to meet a supplier's mandated performance level, your report will conform to their requirements. If you believe your sustainability efforts will provide a positive differentiator with consumers, your reports should be attractive, easy to understand, and generally user-friendly. Initial reports do not need to be complex or comprehensive.

Determine what you want to include in a report. Sustainability efforts are multi-faceted and no requirement exists to report all efforts. Reporting only successes leaves no room for improvement. Readers may understand the difficulty of many of your goals and appreciate measuring effort as much as measuring results. Determining what to include ultimately comes down to what your readers care about.

Reports must be verifiable. Some companies provide third-party assurances on their sustainability reports and more large companies now consider using large CPA firms or other consultants to give their reports credibility. Requirements for "audits" similar to public company financial statement audits are a long way off and will probably never be required, but prepare auditable disclosures.

Summary

Sustainability means many things to many different people, but at its core sustainability means building a lasting organization as part of a lasting planet. Sustainability is about long-term thinking.

Sustainability also means doing more with less. In an ever more resource-constrained world, doing more with less will not only save



WATER CONSERVED

money, it will help ensure your organization's continued existence.

No sustainability effort succeeds without measuring progress. While measuring some sustainability efforts are hard, without objective and verifiable information, progress is impossible.

Information is useless unless others have it and can act on it. Internal reporting on sustainability is necessary, and external report is becoming more commonplace. Think about why you want to communicate, what you want to communicate, to whom you want to communicate, and how you want to communicate.


Finally, we need the conviction and courage to get our sustainability ACT together.

Awareness that sustainability is required and opportunities to create and improve our organization's sustainability efforts are all around us

Commitment to building a lasting

organization as part of a lasting world, and

Transparency in everything we do, measure and report.

We all have the opportunity to make a difference. Our actions today will define not only our tomorrows, but also our children's, grandchildren's and all future generations. 

John F. Levy, MBA, CPA, is the CEO of Board Advisory, a consulting firm that assists public companies, or companies aspiring to be public, with corporate governance, compliance, financial reporting and financial strategies. John is the author of Executive Education's Ethics and Sustainability seminar, which he will present for INCPAS in Indianapolis on Nov. 11. Visit incpas.org to register.




Overall ethnic diversity at CPA firms is only **21%**

By 2050, the minority population will represent approximately 50% of the total United States population.

*The **Indiana CPA Society** is working to enhance the CPA designation through diversity.*

It's what we do.

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