SDGs and Measurement Challenges

In September 2015, a summit of heads of state adopted the Sustainable Development Goals (SDGs) that will guide the UN's 2030 Agenda for Sustainable Development. Now, attention has shifted towards their implementation, monitoring, and evaluation. In order for the SDGs to be successful, every level of government will be counted on to benchmark and assess progress on each of the goals. Each Goal is broken down into a range of targets, with a total of 169 targets spread out across the 17 goals. Read on to know more…

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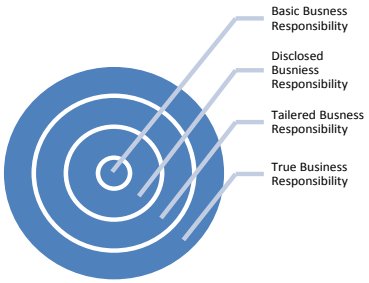
Since the Sustainable Development Goals have to be implemented by 2030, it requires an immense effort not only from the government but also from businesses and professionals. The Indian Government is already using SDGs as a roadmap for formulating national policies and regulations. This makes it imperative that for companies to follow through with the national policies and implement the SDGs. Reliable measurement tools are essential for setting goals and measuring the achievement of the goals by the companies.

Understanding Measurement

Corporate financial performance is relatively easy to measure as inputs and outputs are clearly identifiable. Sales and costs are easy to measure. However, measurement of business responsibility performance in financial terms is much more difficult to measure. Also, there could be several ways of viewing business responsibility performance measurement.



Basic business responsibility measurement is the information found in the sustainability reports and annual reports published by the companies year on year. Disclosed business responsibility measurement is provided by various studies published by leading newspapers. These that look at the performance of companies on responsibility parameters

(like our annual study that measures and ranks companies on their responsibility performance[1]). Tailored responsibility performance measurement is a customised performance report that various consulting firms provide to companies to account for their unique situations. True responsibility performance is the ideal responsibility performance that is impossible to measure given the currently available tools.

What should one put in sustainability reports? How should one quantify performance of social or environmental actions? This is a complex task and the complexity arises on many counts. Social and sustainable performance is based on outcomes which are relatively harder to identify. Take the case of a company that undertakes water conservation through rainwater harvesting. What is the financial value of water added? The value will depend on the use to which water is put to use – commercial (used in factories), agricultural (for farmers to use during periods of water shortages) or for household use (by families of company employees). The value of water will also depend on whether the region is water scarce or not? Water is more valuable when water availability is scarce. Thus, there are significant practical challenges to measuring business responsibility.

Much of the work undertaken on environmental action are in the nature of:

- A substitution of non-renewable natural resources with renewable ones.
- Increased efficiency in the use of both non-renewable natural resources and renewable natural resources.
- Restricting emissions and discharges within Earth's assimilative capacity.
- A restriction on land-use changes in a manner that the life support capacity of the land is not harmed much.

As one can readily see these outcomes are both difficult and complicated to measure. Some of the aspects include:

(a) **Cost of Measurement:** To begin with, it is important to understand if companies have the resources to measure these complex actions. These often require them to get the prices of positive and negative externalities right; extricating the impact of subsidies on unsustainable choices; and making action choices to deal with the problem at hand. Thus, measuring externalities is costly. Greater accuracy of measurement comes at a cost (more data collected, more time spent in evaluation etc.) and hence a tradeoff is required between higher cost of accuracy and lower cost with low accuracy.

(b) **Multiplicity of Stakeholders:** A large number of stakeholders require information at various levels of detail. Thus government, regulators, international agencies, rating agencies and shareholders all require information in different formats and with different details. This add a layer of complexity to the communication of responsibility measurement.

(c) **Inadequacy of measurement tools:** Reporting apart, there are other practical issues. Are the tools needed to measure the impact of setting up a sewage treatment plant the same as tools required to measure the impact of an electrostatic precipitator in a chimney? Clearly, not. How does one integrate different measurement systems? How does one maintain different measurement systems within an integrated system? How does one measure performance when the outcomes are linked to actions by other entities? For instance, two companies have plants located close to one another. One company ensures minimal emissions while the other company does not care. The nearby community does not really benefit.

Several measurement systems have developed over a period of time. Some of the prominent ones are:

(a) **Impact Assessment:** Standards, benchmarks and tools enabling companies to assess, compare and improve their social and environmental impacts over time.

(b) **Environmental Profit and Loss (EP&L) Statement:** Pioneering development of a means of placing a monetary value on the environmental impacts along the supply chain of a business.

(c) **Natural Capital Protocol:** A harmonised framework

[1] *Responsible Business Rankings, 2014-19*

for valuing natural capital in investor decision making.

(d) **Redefining Value:** A work programme that aims to help World Business Council for Sustainable Development (WBCSD) member firms standardise tools to measure and manage their impact on society and the environment.

(e) **Shared Value:** A management strategy focused on creating business value by identifying and addressing social problems.

(f) **Social Return on Investment (SROI):** A framework based on generally accepted accounting principles used to help manage and understand an organisation's social, economic and environmental outcomes.

(g) **Total Impact Measurement and Management (TIMM):** New language to assist companies in understanding the overall impact of their activities.

(h) **True Price:** A social enterprise that helps organisations—multinationals, SMEs, NGOs, governments—quantify and evaluate their economic, environmental and social impacts, particularly on a product level.

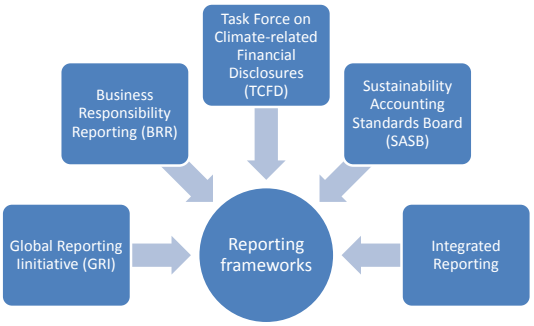
Measurements are fraught with choices, biases and complexities. Multiple metrics make things harder. The search for the right measures is a continuous endeavour. Also, the lack of a single standard hinders comparison of performance across companies.

For a company to adopt a measurement system it will require an evaluation based on several variables such as: How expensive is adopting a particular mechanism? How relevant is a particular system to address the work being undertaken by the company? Can the underlying reporting system generate information required decision making quickly enough to undertake a timely corrective course? Does the system actually measure what it sets out to measure? Does the measurement system enable the company to send out credible signals about the work that it undertakes?

On top of differing measurement methods, multiplicity of reporting frameworks are also problematic.

Reporting Frameworks

Once the internal tools are set, companies report on their sustainability and social responsibility activities. The three primary reporting frameworks being used in India are the Global Reporting Initiative (GRI) based sustainability reports, Business Responsibility Reports and Integrated Reporting (IR).



GRI based Sustainability Reports: The GRI standards were the first standards set out for sustainability reporting. They are seen as global best practices for reporting social, economic and environmental impacts. In India, only a handful of large corporations have adopted GRI-based reporting. Due to the wide nature of requirements and auditing requirements, small firms find it difficult to adopt them.

> The SASB develops and maintains sustainability accounting standards—for 79 industries in 11 sectors—that help public corporations disclose financially material information to investors in a cost-effective and decision-useful format.

Business Responsibility Reporting: The Securities and Exchange Board of India (SEBI) prescribes that the top 500 companies based on market capitalisation should have a business responsibility report (BRR) as part of their annual report. This is a disclosure of adoption of responsible business practices by a listed company to all its stakeholders.

Task Force on Climate-related Financial Disclosures: The FSB Task Force on Climate-related Financial Disclosures (TCFD) develops voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.

The Task Force considers the physical, liability and transition risks associated with climate

change and what constitutes effective financial disclosures across industries. The work and recommendations of the Task Force will help companies understand what financial markets want from disclosure in order to measure and respond to climate change risks, and encourage firms to align their disclosures with investors' needs.

Although not a reporting framework per se, it is likely to have a significant influence while reporting climate related activities.

Sustainability Accounting Standards Board: Established in 2011, the Sustainability Accounting Standards Board (SASB) is an independent, private-sector standards setting organisation based in San Francisco, California dedicated to enhancing the efficiency of the capital markets by fostering high-quality disclosure of material sustainability information that meets investor needs. The SASB develops and maintains sustainability accounting standards—for 79 industries in 11 sectors—that help public corporations disclose financially material information to investors in a cost-effective and decision-useful format. The SASB's transparent, inclusive, and rigorous standards-setting process is materiality focused, evidence-based and market informed.

> SEBI has issued an advisory to companies to provide information required by Integrated Reporting that encourages the top 500 BSE listed companies to use Integrated Reporting as a framework to improve the quality and relevance of the information. Given this development it appears Integrated Reporting is likely to form the foundation of business reports in the near future.

Integrated Reporting: A large number of companies still believe that reporting is a compliance issue and not one that involves a focus on communication to key stakeholders. Integrated Reporting seeks to overcome this by bringing together material information about an organisation's strategy, governance, performance and prospects. This is done in a way that reflects the commercial, social and environmental context within which it operates. It provides a mechanism to disclose all kinds of capital that underlies any business—financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital and natural capital.

Non-financial reporting in this case has been at multiple levels, the international standards based GRI report and the India specific reports. SEBI has issued an advisory to companies to provide information required by Integrated Reporting that encourages the top 500 BSE listed companies to use Integrated Reporting as a framework to improve the quality and relevance of the information. Given this development it appears Integrated Reporting is likely to form the foundation of business reports in the near future.

> The profession needs to move from being centred on financial metrics to move towards non-financial metrics. The scope of sustainability reporting is vast and so are business opportunities for the profession.

However, one should be mindful of the fact that companies may still end-up using differing reporting formats stating that the requirements of various stakeholders are different. Consulting firms may want to defend their turfs and not allow new but useful reporting formats to take root. Yet, we believe that if companies were to report more uniformly comparison across firms will be far more valuable and greater insights be drawn.

Challenges for the Accounting Profession

Given the complexity of the task and the proliferation of standards, the accounting profession in India needs to chart out a path that meet the requirements of Indian companies. The profession needs to move from being centred on financial metrics to move towards non-financial metrics. The scope of sustainability reporting is vast and so are business opportunities for the profession. The time is ripe for the profession to meet the challenges of measurement and develop robust practices for sustainability reporting. There is a need for accounting professionals to develop a strategic perspective, adapt to newer technologies and constantly upgrade their knowledge to meet the challenges of sustainability in the age of the fourth industrial revolution. ■