The evolution from Corporate Social Responsibility (CSR) to Sustainability

by Brendan McLarny

The food retail sector is one of Ireland's most competitive industries. The top 5 organisations include international and domestic competitors, and they account for more than 90% of the market share.[1] Given the tight margins in the industry (typically 2-3%), many organisations have turned away from competing on price. The battleground for many has shifted to Corporate Social Responsibility (CSR) and more recently, sustainability, to secure a competitive advantage over their rivals.

Having conducted research with CSR and sustainability professionals of the major players in the Irish food retail sector, there was an agreement that CSR is no longer a key component of the strategies of incumbents. One research participant went so far as to say that CSR is an "outdated term" whilst another admitted that their leadership "hate the word CSR".

The focus has very much shifted towards sustainability and food retailers are now openly competing on this basis. Many organisations have admitted using their sustainability practices, such as promoting Irish produce, ethical supply chain practices and a focus on fresh healthy food, as a method of promoting their business and establishing a unique selling point (USP) in their product or service offerings. Others have claimed that this USP has enabled their organisation to differentiate them from the competition.

Despite the trend towards sustainability, there is an acceptance within the sector that CSR will still have a role to play for organisations because as one practitioner explained "we try to talk about it a little bit because if you don't talk about it, you get left behind".

As the area of sustainability evolves to become more mainstream, for many organisations, the emphasis has shifted towards sustainability reporting.

Non-financial reporting – the current situation

Stakeholders have never been more demanding of information on company performance. Not only are they concerned with the financial performance of the organisation, but there is also an ever-increasing demand and focus on the non-financial information. The major issue for stakeholders is that there is a lack of standardisation in non-financial reporting.

The main voluntary frameworks used by Irish food retailers include the GRI (Global Reporting Initiative), SASB (Sustainable Accounting Standards Board) and the International Reporting (IR) Framework. Coupled with the various frameworks and initiatives, is the inconsistent approach to non-financial reporting which is undertaken within the food retail sector. Some organisations include non-financial information in an annual sustainability report, some produce this report bi-annually whilst others report on their non-financial performance in the annual report. The food retail sector is comprised of a mixture of international competitors and smaller SMEs. Some of the smaller competitors have pointed to the onerous reporting requirements involved by adopting the various frameworks. One sustainability professional outlined that their organisation had previously reported to the GRI, but they no longer report because "it ends up becoming almost a job in itself, and you end being more focused on the reporting than actually the doing". However, with the Climate Action bill being signed into law in July 2021 and the Climate Change Advisory Council (CCAC) issuing their recommendations to the government on recommended greenhouse gas limits, the non-financial reporting requirements faced by organisations are set to increase.

The United Nations Sustainable Development Goals (SDG's) – relevant for business or not?

The SDG's are a blueprint for peace and prosperity for people and the planet. These 17 goals which cover poverty, gender equality, climate action, clean water and quality education among others, were adopted by all United Nations member states in 2015[2]. The goals are a partnership between governments, civil society and the private sector to end poverty and protect the planet. In an effort to demonstrate their commitment to the achievement of the goals, Irish food retailers have reported on the actions they have undertaken. Given there is no obligations on organisations to report on the goals, some organisations have taken

1 https://www.kantarworldpanel.com/global/grocery-market-share/ireland

2 https://sdgs.un.org/goals

very differing approaches. Some businesses produce an annual sustainability report which link some KPI's such as carbon emissions to the goals, some include it within their annual report, whilst others do not report at all. A key factor in the inconsistency of reporting on the goals is due to the perception from within the sector, that the goals are not suitable for food retailers, or indeed the private sector as a whole. A sustainability professional in an Irish food retailer stated that the goals are "not designed for business" whilst another stated that "they work really well for nation states rather than a blueprint for businesses". Given the broad reaching impact of the goals, only certain goals will fall within the remit of some organisations, whilst the organisations themselves may struggle to make any impact on certain goals. One food retailer outlined their focus was on 11 of the goals but admitted that 11 goals were a bit ambitious, and their leadership were considering "narrowing down their focus to create a greater impact".

Very few food retailers actually report on their achievement of the SDG's but instead report on internally generated KPI's. One sustainability practitioner in the Irish food retail sector admitted that they use the goals "more as a mirror, rather than a measurement tool". This clearly indicates that the SDG's are being viewed as not fit for purpose within the sector and a radical rethink is required to make them more applicable for the private sector.

The future for non-financial reporting

The recent COP26 event in Glasgow attracted many headlines from around the world. The 13-day summit aimed at addressing the human-caused damage to the planet, received mixed reviews from commentators. However, from an accounting perspective, the announcement by the IFRS Foundation of the International Sustainability Standards Board (ISSB) was a positive development.

This board will involve a consolidation with the Climate Disclosure Standards Board (CDSB) and the recently formed Value Reporting Formation (VRF) – a previous merger of the Integrated Reporting Framework (<IR> Framework) and the Sustainable Accounting Standards Board (SASB). The IFRS announced 3 developments aimed at providing the global financial markets with high-quality disclosures in the areas of climate and sustainability[3]:

- The formation of a new Sustainability Standards Board (ISSB) – aimed at developing a global set of sustainability disclosure standards to meet the information needs of investors.
- A complete consolidation of the CDSB and the VRF by June 2022.
- The publication of prototype climate and general disclosure requirements by the Technical Readiness Working Group (TRWG) – a group undertaking preparatory work for the ISSB.

3 IFRS - IFRS Foundation announces International Sustainability Standards Board, consolidation with CDSB and VRF, and publication of prototype disclosure requirements

4 New body to oversee global sustainability disclosure standards | Financial Times (ft.com)

5 IFRS Foundation creates new sustainability standards board (iasplus.com)

The creation of a new set of global standards and disclosure requirements will allow for consistent and comparable reporting by organisations on a global basis. Given the current fragmented nature of non-financial reporting, coupled with the variety of reporting frameworks, a common set of standards is to be welcomed. Through meeting investor information needs, the new standards will allow the issue of 'greenwashing' to be tackled. The new standards are set to be referred to as 'IFRS Sustainability Disclosure Standards'[4]. To emphasise its global reach the board will comprise 14 members – 3 from Asia-Oceania, 3 from Europe, 3 from the Americas, 1 from Africa and the remaining 4 can be appointed from any area[5].

The role of the accountant

A major issue facing accountants is that with the likely onset of some form of mandatory non-financial reporting, a greater onus will be placed on the data gathering process. From an Irish perspective, the lack of detail on the sectoral emissions means a lack of clarity on what climate, environmental and social data is to be recorded by organisations. The issue then is that if key data is not recorded, it cannot be measured. Furthermore, if data isn't recorded or measured, it cannot be assured. The demand from stakeholders for third party accreditation is ultimately what holds organisations to account. In the food retail sector, there is a fear that many organisations leadership teams are prioritising setting vision and ambition as opposed to having professional managers executing attention to detail. Some organisations are better equipped for data capture, having policies and procedures in place to comply with the existing voluntary frameworks. Other organisations who have not bought into non-financial reporting will face a steep learning curve in the face of new reporting requirements. In the past, these organisations have viewed recording their food packaging data as a luxury, rather than ensuring they are not in breach of future environmental legislation. In light of the government commitment to reduce carbon emissions by 50% by 2030 there is real onus on organisations to make their move, and the sooner they make this move, the more likely they will be to achieve their goal. The cost of inaction at the start of this decade is likely to be great, leading to a race to achieve the 50% reduction by the end of the decade. The evolving role of the accountant shows no sign of stopping.

Brendan McLarney

Brendan is a Lecturer in Accounting at Technological University of the Shannon: Midlands