European Commission

A framework for Member States to support business in improving its resource efficiency

An Analysis of support measures applied in the EU-28

Measure synthesis

Improving company accounting and reporting practices

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Improving company accounting and reporting practices

Existing accounting and business reporting rules can fail to capture and illustrate progress on resource efficiency. Sometimes they can reinforce practices that reject investments in resource efficiency with longer pay-back times. Changes to accounting and reporting practices that better allow resource efficiency measures to be seen as beneficial for business may help businesses to change. These could include integrated environmental, economic and social accounting (environmental profit and loss (EP&L)), Governments can support change, either through supporting work by accounting bodies, or through prompting change in reporting practices.

This measure is only used in four member states: in Denmark and Finland there is wide use (7%), and in Austria and Germany there is a little use of this support measure (7%). In the vast majority of Member States (24 MS), there is no national policy in place (86%).

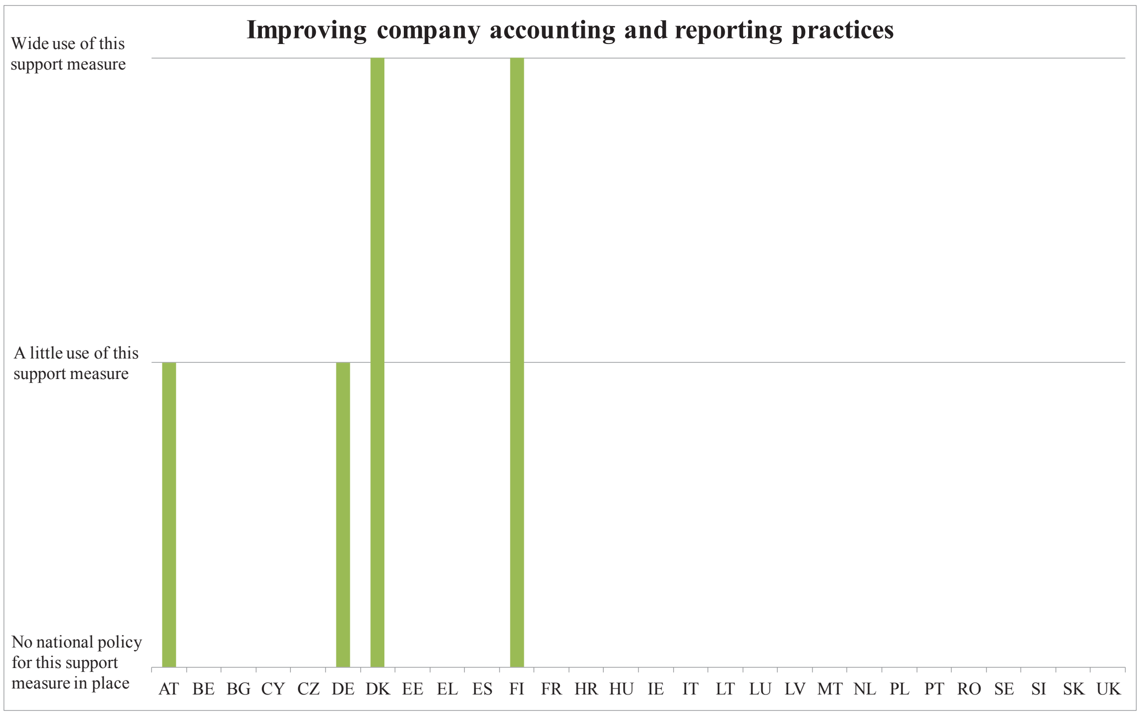

Figure 1: Scope of application of support measure 7 across the EU-28

Good practice examples

Interesting good practice examples can be found in Denmark and Germany (see Figure 2; the full list can be found in the separate Annex document) – each presenting a different approach to improving company accounting and reporting practices.

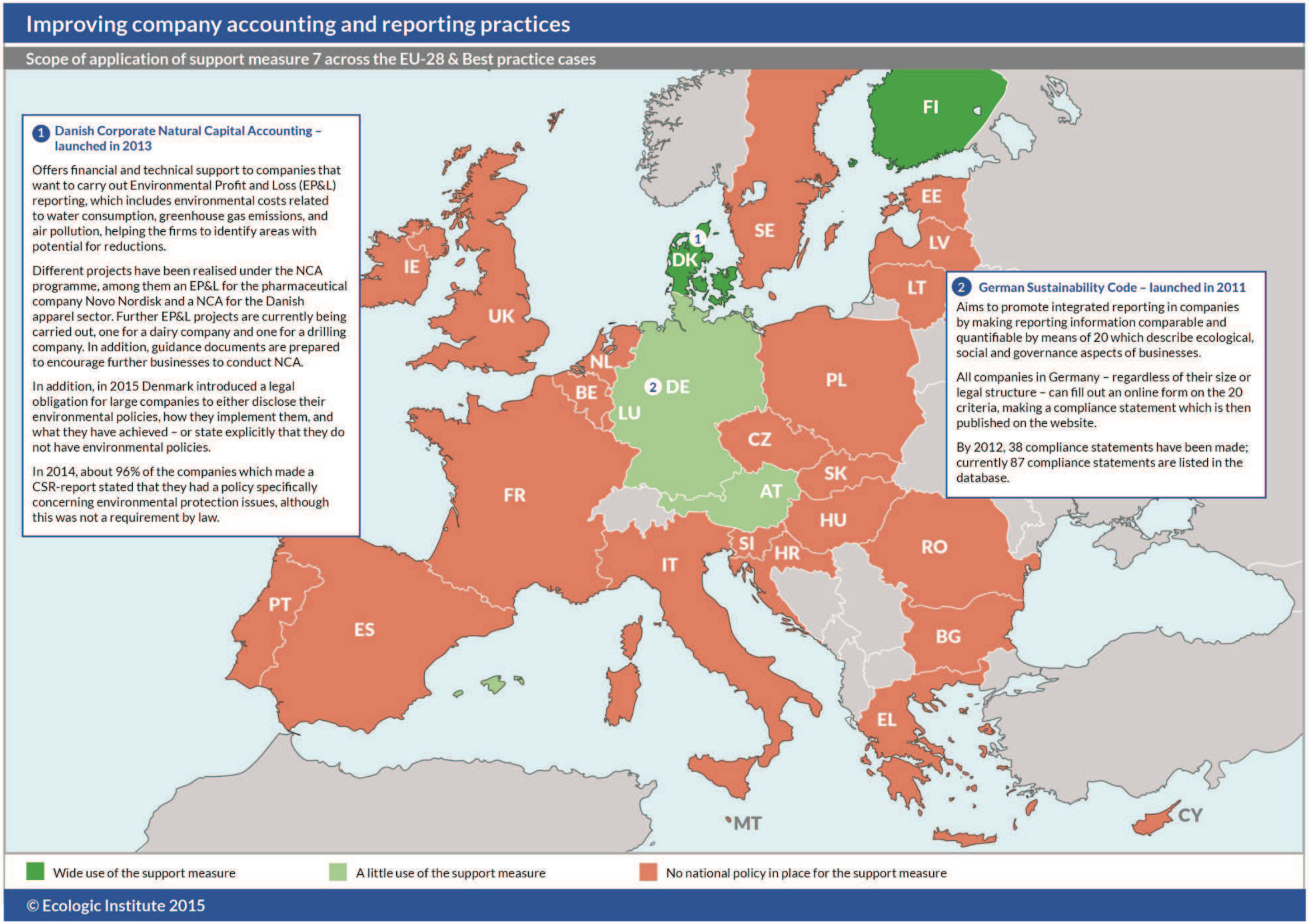

Figure 2: Good practice examples and scope of application for support measure 7 across EU-28

In **Denmark**, the state supports integrated reporting by offering financial and technical support to companies that want to carry out EP&L reporting – also referred to as Corporate Natural Capital Accounting (NCA). In the company reports, environmental costs related to water consumption, greenhouse gas emissions and air pollution are listed, helping the firms to identify areas with potential for reductions. Different projects have been realised under the NCA programme, among them an EP&L for the pharmaceutical company Novo Nordisk (Danish Ministry of the Environment 2014) and a NCA for the Danish apparel sector. Further EP&L projects are currently being carried out, one for a dairy company and one for a drilling company. In addition, guidance documents are prepared to encourage further businesses to conduct NCA. A budget of 200,000 EUR is allocated to this measure, which was initiated in 2013.

In addition, in 2015, Denmark introduced a legal obligation for large companies to report whether they have a corporate environmental policy in place. More precisely, companies must either disclose their environmental policies, how they implement them and what they have achieved – or explicitly state that they do not have environmental policies. This measure was part of an amendment to the Financial Statements Act and provides a basis for the EU Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups.

In **Germany**, the German Sustainability Code (*Deutscher Nachhaltigkeitskodex*) improved accounting rules at the company level. There are 20 criteria of the Sustainability Code, which describe ecological, social and governance aspects of businesses, aiming to make reporting information comparable and quantifiable. All companies in Germany, regardless of their size or legal structure, can fill out an online form on the 20 criteria to create a compliance statement which is then published on the website.[1]

Lessons learnt from the application of the support measure

Improving accounting and reporting practices in companies is by far the least widespread support measure in the EU Member States, with only four states having such a measure in place. This indicates a low awareness for the potential benefits of integrated reporting among businesses and policy-makers in the EU. Moreover, these findings suggest that companies interested in integrated reporting are largely left to their own devices, without having a central contact point for information and advice.

From the application of this support measure in the above two Member States, the following lessons learnt could be derived.

One precondition for the successful implementation of integrated reporting is that **companies see its potential as a strong tool for communication, risk management and improving resource efficiency**. In **Denmark**, the inclusion of the environmental aspect in the Danish Financial Statements Act helped companies to **raise internal awareness** and realise the potential benefits of this obligatory reporting action. In particular, the comply-or-explain model has shown to be successful since very few companies have chosen not to have a policy on environmental protection – although it is not required by law to have a policy, only to report on it. In fact, about 96% of the companies, who made a Corporate Social Responsibility (CSR) report, reported that they had a policy specifically concerning environmental protection issues.

The Danish concept of giving financial and technical support to companies for carrying out an EP&L is transferable to States where (1) the benefits of integrated accounting practices are known and (2) there are companies that are interested and motivated to conduct an EP&L, with the capability to allocate a substantial budget to the initiative.

In order to enhance the **transparency and comparability** of existing reporting practices which feature environmental aspects, the offer for companies to publish their environmental achievements (online) based on established criteria as done in **Germany** with the Sustainability Code seems to be one way forward. In order to specifically support SMEs in the application of the Code, a **targeted guide** was

[1] See http://www.deutscher-nachhaltigkeitskodex.de/

developed (Rat für Nachhaltige Entwicklung 2014). Moreover, the Sustainability Code **offers publicity and thus gives an additional incentive** to companies.

In addition, further lessons learnt emerged from the information obtained for the other Member States where this support measure is being applied:

In **Finland**, the integration of sustainability issues in company accounting and reporting practices is facilitated through the Sustainability Reporting Award Finland. The Award has offered Finnish businesses and other organisations an opportunity to enhance their reputation as one of the Corporate Responsibility leaders in the country. Representatives of independent experts audit companies (Deloitte, Ernst & Young, KPMG and PwC) evaluate the reports of the participating companies. There are three competition categories: general, SMEs and the public sector. The Sustainability Reporting Award Finland, which was launched in 1996, presents a low-cost support measure (funding of 5,000–10,000 EUR is provided annually). The award has proven to be a successful instrument in Finland, as an **improved quality of the reports** has been achieved and the **number of interested companies has increased**. Similar to the Sustainability Code in Germany, the Finnish Award **offers publicity to the companies**. There are special themes in different years, which raise the attention of businesses to emerging themes.

Integrated Reporting is supported in **Austria** through the National Accounting Matrix including Environmental Accounting (NAMEA). It shows material flows (use of materials, use of energy, air emissions and waste) as well as environmental protection expenditures and environmental taxes together with economic data (gross value added, production value and working population) within the Austrian economy. Air emissions or waste generation, for example, are linked to gross value added. NAMEA is a satellite account whose purpose is to extend the System of National Accounts (SNA) by including environmental data. It provides a comprehensive overview of economic and environmental aspects at economic sector level, and of private households, in a standardised framework. This means a shift in focus from commonly used economic indicators to environmental relevant data of a particular economic sector. Although this measure is not directed at companies, it can be seen as a first step to change perception and to allow resource efficiency measures to be seen as beneficial, both for society in general and for businesses.

Across the examples obtained from the literature review and Member State responses, the following aspects could be identified as key success factors for improving company accounting and reporting practices to improve resource efficiency in businesses in the EU:

- Clearly conveying and draw attention to the benefits of integrated reporting for companies.
- Offering assistance in form of standardised procedures and/or elements for integrated reporting, thus making reporting activities comparable and providing guidance (e.g. through providing this information and guidance online).
- Supporting current integrated reporting activities and incentivise future integrated reporting activities through increased visibility (e.g. through website, print media, an awarding ceremony, etc.) and give publicity to good practice examples.

References used

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