Sustainability Watch

Sustainability Accounting Standards Board

Summer 2014

New Standards-Setting Body Shows Promise for Sustainability Reporting

Things to Remember

- *Corporate social responsibility* (CSR)—where addressing environmental, social, and governance (ESG) issues is as important as making a profit—is the new way of doing business.
- CSR is increasingly becoming a key competitive differentiator, strategic element, and important investment consideration that requires accurate and meaningful metrics and reporting capabilities.
- With an overabundance of initiatives, standards, and best practices, corporations have struggled to easily and accurately assess and report ESG performance in a way that is relevant and actionable to all stakeholders.
- The recent launch of the *Sustainability Accounting Standards Board* (SASB) shows promise in mitigating the problems of the past and bringing simplified, cost-effective, and relevant standards and reporting practices to more than 80 industries and 10 sectors in the US.
- While some are skeptical, many view the SASB as the solution to value-add ESG reporting.

The Basics

The "business as usual" of the past, when profit was the primary motive, growth was achieved at any cost, and competition trumped collaboration in every instance, is fading into the sunset. These days it takes more than a strong financial bottom line to put a company at the top. That bottom line must be derived from a business ethic and operating practices that consider environmental, social, and governance (ESG) factors to be just as important as making a profit. This new way of doing business is called *corporate social responsibility* (CSR).

CSR is no longer simply a "nice thing to do" reserved for a few outlying companies that were founded on social or environmental principles. CSR is rapidly becoming a key competitive differentiator, an investment consideration, and a component for creating strategies and business models that serve a broad range of constituents and initiatives inside and outside the company. Those constituents and initiatives include the environment and ensuring the well-being of populations in communities in which companies do business.

However, measuring and quantifying ESGs and documenting CSR performance has been muddied waters, with initiatives and best practices in abundance but no definitive, industry-specific, and accepted standards that easily and adequately reflect performance in a meaningful and actionable way. The process of assessing, documenting, and reporting CSR can be cumbersome as it frequently lacks specificity and is sometimes even useless in comparing one company with another because there is so much variety in how performance is measured and reported. While everyone with a stake in the game (investors, accountants, corporate representatives, etc.) seems to recognize the merit of sustainability accounting standards, up until recently there was no such avenue for assessing and reporting sustainability efforts.

Enter the *Sustainability Accounting Standards Board* (SASB), a non-profit standards setting entity established in 2011 to address the need for standardized sustainability metrics and reporting. Founded by three individuals with the intent to "promote sustainable value creation and ultimately enhance the competitiveness of all US industries on the most pressing challenges facing industry and society today," the work of the SASB is overseen by a 12-member board.

The SASB differs from other attempts to report on sustainability performance in several ways. First, it takes an industry-based approach, identifying distinct reporting metrics and standards for more than 80 specific industries across the 10 United States business sectors. The SASB also uses a collaborative and evidence-based approach in establishing these standards, selecting metrics that are material to specific business operations and drive value creation for both company and community. Relevance is key. Additionally, the standards are tightly aligned with and suitable for meeting disclosure requirements in the Security and Exchange Commission's (SEC) mandatory filings, such as the 10-K.

The SASB develops standards within each industry and sector based on "materiality maps" that identify key ESGs for that industry and sector, derived through extensive data analysis. Once the data reveals a straw-dog map, it is intensely scrutinized by a working group of industry experts. These working groups (which include representation from the accounting, investment, and academic disciplines as well as corporate personnel) refine the maps, selecting and ranking the most material issues for relevance. Stakeholder interest and financial impact are part of the evaluative process. The resulting proposed standards are then shared with the public for input. After public input has been considered, the standards are reviewed by the SASB Standards Council, finalized, and published. The SASB has gained legitimacy and authority through accreditation by the American National Standards Institute (ANSI), which has approved the standards as an accepted form of measurement.

Healthcare is the first industry for which standards have been established. Work is underway in the areas of finance, technology, communications, non-renewable energy sources, and transportation.

Benefits

The SASB enables investors and other stakeholders to much more easily, equitably, and effectively evaluate and compare companies for investment and other purposes. What was a cumbersome, often expensive, and sometimes meaningless process is now less-costly, more effective, and a strong indicator of material value.

Standards provided by the SASB not only help in demonstrating to stakeholders how well a company is performing in terms of its ESGs, they also help provide relative benchmarks for companies to use in measuring themselves against the competition.

The SASB shows promise in the very important area of defining “materiality,” which other reporting initiatives—including those established by corporations individually—have had difficulty addressing. Prior to the SASB, and the important input of industry experts and interested parties in developing material standards, there was very little alignment between companies on what was and was not material.

The SASB enables improved communication about a given company’s ESG performance, which contributes not only to investor involvement but also to risk mitigation and strategic direction. Within the investment community, this enhanced communication enables better investment decisions and more robust data sets for all stakeholders.

Drawbacks

Some believe that standard-setting entities such as the SASB, though initially well-intentioned, can lead to “bullying” of sorts where certain investor groups or individuals with particular agendas wield the standards to pressure investment decisions. Others believe adding another self-appointed standards group to the mix will further tax an already overloaded corporate disclosure process. Because SASB is not part of SEC requirements, nor expected to be adopted by the SEC, it could be perceived as creating an additional burden.

The SASB is not the first or only set of standards created to address social, environmental, and governance issues. For example, The Global Reporting Initiative is another such standard. There is concern that multiple standard-setting bodies will create an even more confusing situation.

Related Sustainability Watch Reports

- Measuring CSR Performance
- Triple Bottom Line
- CSR Strategy

Further Reading

Dickerson Jr., W. (2013). Beware of the Self-Anointed Standard Setters - Like the SASB. Venulex Legal Summaries, 1-3. http://search.ebscohost.com/login.aspx?direct=true&db=plh&AN=93598111&site=ehost-live

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Herz, R. (2013). Meet the New Standard Setter for Sustainability. Compliance Week, 10(112), 1-33. http://search.ebscohost.com/login.aspx?direct=true&db=plh&AN=87615357&site=ehost-live

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