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Editorial

Sustainability accounting: ESG approaches are not enough

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1. INTRODUCTION

The Bruntland Report (United Nations World Commission on Environment and Development [UNWCED], 1987) launched an interest in sustainable development, which has come to be a key concern for the global society, translated into policies affecting the economic system. Companies, particularly multinational corporations, have come to be seen as a crucial driver of sustainability problems such as climate change, biodiversity, human rights, and working conditions in the supply chain (Antonini et al., 2020; Whiteman et al., 2013). Companies are part of the problem, but also part of the solution, as they possess the resources to address contemporary sustainability challenges that affect us (Bebbington et al., 2020a).

Accounting research was not unconnected with interest in how corporations address the sustainability challenges (for reviews of this literature, see Bebbington et al., in press; Gray & Laughlin, 2012; Larrinaga et al., 2019). In policymaking, institutions such as the Global Reporting Initiative have issued sustainability reporting guidelines (Larrinaga & Bebbington, 2021). The European Union has mandated companies to report sustainability information through the Corporate Sustainability Reporting Directive (Directive 2022/2464/EU). These details are indicative of the rising activity in sustainability accounting and reporting.

However, the language of sustainability seems to have shifted in the last years to ESG (i.e., environmental, social, and governance), and the aim appears to have narrowed to an investor perspective (Young-Ferris & Roberts, 2021). The IFRS Foundation and other bodies interested in transparency for the protection of investors have articulated the narrative of financial materiality (Adams & Abhayawansa, 2022; Giner & Luque-Vílchez, 2022), reclaiming the pristine meaning of materiality, as in the financial accounting conceptual framework, from the translation that the term has suffered in sustainability reporting.

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2. ESG REPORTING

The new language of ESG reporting and financial materiality could look like a simple contemporary style in the use of language. Why should ESG reporting be any different from sustainability reporting? After all, sustainability issues are likely to end up, sooner or later, being financially material. However, I contend that language is never innocuous and different authors have criticized the investor-oriented perspective of sustainability reporting (Adams & Abhayawansa, 2022) or at least signaled the importance of clarifying the different views present in the field (Pollard & Bebbington, 2022).

The financial perspective (that of financial materiality and ESG reporting) is interested in sustainability matters to the extent they engender "risks and opportunities" that are significant "to the primary users of general purpose financial reporting when they assess enterprise value and decide whether to provide [financial] resources to the entity" (IFRS Foundation, 2022, p. 22). The financial materiality for investors is a narrow approach to sustainability for three reasons. First, the long tradition of externalities in economics demonstrates that private (e.g. enterprise) value is often created at the cost of third parties. Corporations have even been conceptualized as externalizing machines (Lohmann, 2009), that is the interest of investors is often conflicting with the interest of third parties. Second, the conceptual edifice of corporate social responsibility and sustainability has been built around multiple stakeholders contributing to organizations with different resources and interests. The IFRS Foundation even recognizes such contributions, but this institution narrows tactically the focus of sustainability reporting on feasible metrics that artificially reduce the complexity of sustainability (Adams & Abhayawansa, 2022). The IFRS Foundation rejects a more conceptually precise ambition for reproducing the complexity of sustainable development. Finally, the focus on information disclosure to investors might not be productive in a setting characterized by universal uncertainty about environmental problems and the means to address them (Folke et al., 2021). An illustration of the problematic nature of sustainability information in the presence of externalities, different interests, and uncertainty is provided by the value investors attribute to fossil fuel reserves against all scientific evidence showing that humanity needs to forget about burning those fossil fuel reserves beyond a known limit (Bebbington et al., 2020b).

Although investors and financial markets need to be mobilized to pursue sustainable development (Bebbington et al., in press), the investor and ESG perspectives do not embrace all the constituent elements of sustainability.

3. THE ANTHROPOCENE PERSPECTIVE

What are we talking about when we talk about sustainability? A safe operating space for humanity is inherent to any sustainability account; therefore, sustainability accounting should consider the interaction between the social and the natural worlds. The failure of the Western society and economic system to address fair ecological sustainability is calling attention to the possibilities that might emerge from non-Western contexts. The Sustainable Development Goals could provide a framework to build sustainability accounting in the interests of multiple stakeholders. The rest of this piece of writing develops these three ideas.

The anthropogenic environmental change goes beyond enterprise value; focusing on enterprise value underestimates what is at stake here. Human-driven environmental change has such a dimension that scientists have defined a new geological epoch called Anthropocene (which has replaced the Holocene), characterized by the permanent change that humanity has produced, not only at the ecological, but also at the geological level: we are changing the very physical essence of Earth in aspects that will be observable in millions of years to come (Bebbington et al., 2020a). The value of corporate assets will be long buried and forgotten in the distant future, when our descendants will still need to deal with the environmental transformations our civilization has produced. From a broad perspective, sustainability is more important than ESG and financial materiality.

This global perspective of the Anthropocene has been operationalized with the help of the planetary limits, a view that Rockström et al. (2009) translated into nine global processes, including, among others, climate change and biodiversity, which are vital to providing an operating space for humanity. Transgressing those biophysical limits will drive Earth subsystems to shift into new states, having disastrous consequences for our human civilization. It is not just enterprise value at stake, but our human civilization. In that regard, Rockström et al. (2009) and Steffen et al. (2015) reveal that humanity has already crossed some of those boundaries, calling

our attention to the need to address our ecological/geological impact. This is an argument in support of impact materiality.

In contrast with the financial materiality perspective (which characterizes the ESG language), impact materiality is interested in sustainability issues as far as they potentially affect the safe operating space for humanity (noting that ecocentric arguments could also point in a similar direction). Examples of material sustainability information would include deforestation leading to biodiversity loss or the use of fossil fuels producing greenhouse gas emissions. Even though these issues might not be financially material, they are material from a sustainability perspective.

Note that I draw on Anthropocentric arguments. The notion of sustainability originated in debates about human development (UNWCED, 1987), with a long-standing discussion about economic growth (Jackson, 2009). Human needs lie at the center of sustainability. In that regard, different Latin American authors are providing insightful ideas to disassociate growth from human needs, as with the human-scale development proposed by Max-Neef (2006), which distinguishes between needs and satisfiers. Considering basic universal needs, such as subsistence or freedom, suggests that those needs have a different ambition than enterprise value. Although human rights might not be financially material, they are sustainability material.

It is not by chance that these new perspectives about human development are emerging in Latin America. The European colonization of America was a major event in the emergence of modernity (Quijano, 2000; Sauerbronn et al., 2021) and the separation between humanity and nature (Larrinaga & Garcia-Torea, 2022). Accounting research is essential in studying how production and consumption are constructed (Bebbington et al., 2020a). We have argued elsewhere that Latin America has the opportunity to offer a distinctive contribution to sustainability accounting (Gómez-Villegas & Larrinaga, 2022; Larrinaga & Garcia-Torea, 2022) that does not follow the dictates of ESG reporting and financial materiality.

4. FINAL REMARKS

Language matters. Uttering ESG reporting or financial materiality has implications that call for scientific precision and rigor in our analyses. I am not suggesting that financial markets and investors are unnecessary; on the contrary, they determine how the global economy changes the natural environment (Jouffray et al., 2019). However, ecological and social sustainability is critical for the future of our civilization; sustainability is an end and financial materiality is but an instrument (Larrinaga, 2021). The United Nations (UN) Sustainable Development Goals provide a guide for exploring sustainability accounting, illuminating the materiality of aspects such as economic fairness, ecological responsibility or education (Bebbington & Unerman, 2018).

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