



They need to start preparing for this new role now.

by Yvonne Chan

‘Sustainability’ is a broad term that varies in meaning for different people and industries. Given my training as an accountant, it entails the triple bottom line¹ for me. What this means is that for a sustainability effort to be enduring, it starts with bringing bottom line value to the organisation, harvesting the best of human capital, and taking care of our larger community and environment, including the planet we live on. However, this is easier said than done in a world with competing needs and limited resources.

As the gatekeepers of governance, accountants were better known as bean counters in the past, who tended to be transactional in their conduct due to the technical and repetitive nature of the job. But as society evolved, accounting became a financial and strategic partnership, moving beyond ticking a list of checkboxes for compliance. It evolved into the evaluation of how each assignment elevates the organisation’s business leaders to best achieve the goals they have set. In recent times, this has included the goal of sustainability, which requires accountants to help their stakeholders go beyond a short-term financial mindset to consider the long-term survivability of the organisation.

Accountants must be cognisant of potential enterprise risks: pressure from competition, shifts in government regulations, and other externalities that have become threats over time. At the same time, they must recognise opportunities for growth, be aware of new markets and products, and drive the completion of strategic programmes. All this is necessary for organisations to become nimbler and more forward-focused, such that they can reap the benefits of productivity by adopting tech-enabled solutions. This helps to generate bottom line value.

It is also imperative for an organisation to attract good talent, care for their well-being, and empower them to grow with pride. This differentiates good firms from their average counterparts. Gone are the days when long in-office working hours are glorified and decision-making is top-driven. Employees now crave the co-creation of solutions, empowerment to take responsibility, and an environment that allows experimentation with new ideas. While these ostensibly human resource (HR) issues may not naturally fall under the job scope of accountants, they account for a sizeable financial component of the profit and loss (P&L) statement and hence are an evolving area of concern that will continue to engage the attention of management. Addressing this issue would enable the harvesting of the best human capital.

Finally, the need to understand the impact of decisions made on the environment and the larger community has also created mounting pressures on governments to regulate the negative impacts on the planet to preserve it for future generations. Although many have claimed that it is too late, any effort to slow the harm is still a move in the right direction. Such regulations might lead to higher taxes and penalties which would translate into higher compliance costs, but it ultimately takes care of the larger community and Planet Earth.

SUSTAINABILITY REPORTING: THE STATE OF PLAY TODAY

With crucial global megatrends such as changing demographic dynamics, widening socio-economic disparities, technological advancements, and climate change intertwining with the increasing weight of environmental burdens, sustainability has become a regular theme at conferences and seminars, as well as a key challenge for governments worldwide. Sustainable business practices meanwhile are gaining traction to become mainstream due to their capacity for value creation, leading to the differentiation of poor, good, and best businesses through the lens of sustainability measurement and monitoring.

The world has done away with the old wineskins of reacting to sustainability with sporadic and reactive actions. Today, sustainability is a worldwide movement that has become more pre-emptive and proactive. Since the first major United Nations Conference on the Human Environment in 1972, the progress in the adoption of sustainability has accelerated in the 2010s. The year 2015 brought the Paris Agreement that legally bound 195 countries to a global climate deal, while the 2018 ASEAN Social Bond Standards and ASEAN Sustainability Bond Standards launched by the ASEAN Capital Markets Forum or ACMF put forth standards to reinforce transparency, consistency, and standardisation of the region's social and sustainability bonds. With more formal international decisions made, such as the formation of the International Sustainability Standards Board (ISSB) post-Conference of Parties or COP26, the accounting community has sat up to take note of the potential influence that such decisions may have on International Financial Reporting Standards (IFRS) specifically and financial reporting in general.

In June 2023, ISSB issued its inaugural standards IRFS S1 and S2 to reduce fragmentation and facilitate the comparability of climate-related data. This formalises a new push for sustainability-related disclosures worldwide with the intent

to enhance trust and confidence in the capital markets. Both standards were developed after extensive consultations with global markets and leaders. Although it is not explicitly stated that the compliance will be done by accountants, the fact that sustainability-related information is required alongside financial statements built on the IFRS Accounting Standards suggests this is likely to be so.

S1 lays out the disclosure requirements to help companies communicate sustainability risks and opportunities over the short, medium, and long term. S2 spells out specific climate-related disclosures to be used with S1. In the words of Emmanuel Faber, ISSB Chair, the standards were “designed to help companies tell their sustainability story in a robust, comparable and verifiable manner.”⁹² There is now a push for more information to be revealed on a forward basis, so as to better guide investors providing capital to responsible firms that are willing to share and communicate their plans. After all, financial reporting used to provide more historical data on a firm's performance, which may not reflect the future that investors would buy into. Hence, this move is likely to be celebrated by the investor community. However, the extent of full adoption in this relatively new space remains to be seen.

The task at hand is to educate those who have prepared statements the old way to comply with new standards, albeit with systems not yet ready to capture relevant data holistically for reporting. This also presents a huge market for educational institutions to cultivate and modify their syllabus, and capitalise on the large potential of transformative sustainability learning, especially in adult higher education. On the flip side, subpar disclosures may lead to higher capital costs and difficulty in attracting the talent required for higher sustainability compliance. To facilitate adoption, ISSB has formed a Transition Implementation Group to support the various jurisdictions and prepare communities for implementation across the globe. It has been forecast that Europe is more ready to lead the pack and progress may be slow in other parts of the world.

THE ANATOMY OF A SUSTAINABILITY REPORT

A sustainability report must have elements encompassing four broad categories: economic, environmental, social, and governance.

The economic perspective suggests that sustainability reporting must be resilient, and include long-term financial modelling and plans. In the world of accountants, this used to follow a concept known as ‘going concern’. Given the quick pace of our environment, which has been accelerated by the



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introduction and adoption of new technologies, plans have become more short-term and may change more often than leaders prefer. Hence, it is becoming rarer to see 10- or even five-year plans. That said, it is still important to ‘crystal ball’ the future to develop a general direction to steer the organisation, which would enable it to prepare for large capital and operation expenditure requirements, and new products and services, as well as plan for manpower succession resilience and take action to defend itself against potential threats.

For the environmental aspect of sustainability reporting, the minimum requirement is to report on environmental emissions, energy and water usage, and waste. They can be aligned to the Greenhouse Gas or GHG Protocol 2003 of Scopes 1, 2, and 3. Scope 1 refers to direct emissions from owned or controlled sources such as from companies' facilities and vehicles. Scope 2 refers to indirect emissions from the generation of purchased energy. Scope 3 refers to value chain emissions from the reporting entity including upstream and downstream tracks that are split into 15 categories such as business travel, waste generated in operations, and finance investments, to name a few key ones.

Within the social domain, reporting must engage the community to ensure and promote health, safety, labour, charity, and human rights; include the declaration of human-centric

goals and responsibilities to attract talent while factoring in diversity considerations; and provide for responsible procurement (or a sustainable supply chain) of goods and services.

When viewed from the transparent governance perspective, anti-bribery and anti-corruption measures are key to ensuring ethical reporting. Strong business ethics and management of the evolving regulatory landscape, enterprise risk management, sustainability governance, and technological risk management can ensure that the sustainability report will be credible and effective. In companies serious about enhancing such governance, frameworks are officially posted on their staff intranet with details of persons holding key roles such as the Chief Risk Officer and the supporting panel (usually made up of double-hatting staff). A good governance framework should ensure compliance from judiciary and statutory set-up to internal policies, and put in place processes and procedures for operations supported by a robust ops-tech plan for execution, and a balanced scorecard for monitoring the responsibilities of officers in charge. It would be best if such responsibilities can be subjected to performance appraisals.

As for social enhancement, a clear and well-defined HR policy should list the guidelines for ethical, fair, and unbiased recruitment. Hence, in most interviews, a neutral HR personnel sits in to ensure that such principles are upheld.

CARRYING OUT SUSTAINABILITY REPORTING

Sustainability reporting is a means to establish an organisation's current vision and focus areas for survivability, and better value creation in the future. Potential pitfalls might occur when the target audience for the report is not clearly defined, clouding the clarity and cascading direction of the organisation. These issues could be addressed by identifying key stakeholders, gathering feedback on sustainability issues, identifying material matters, and documenting how key decisions are made. This helps to deliver a strategic report that will focus on what would be the most crucial issues for the organisation and stakeholders in the future. Any report produced is then subjected to regular reviews and enhancements to drive the organisation towards the common achievement of its mission and vision.

For beginners, the five stages involved in sustainability reporting are described below.

Stage 1: Engage key stakeholders

Poor corporate emphasis on sustainability matters can be a serious challenge, especially where it has been exacerbated by resistance to change the status quo. Sustainability initiatives may also be driven in silos, thus lacking comprehensive engagement across leadership teams. It is hence imperative to set the right tone at the top, starting with the board and leadership championing sustainability as a top agenda topic for the organisation.

An Asian company known for leading sustainability efforts would be City Developments Limited (CDL). It was a pioneer when sustainability reporting was relatively unknown in this part of the world in the mid-1990s. The late Kwek Leng Joo, then Managing Director, championed corporate social responsibility (CSR) actively together with Esther An, CDL Chief Sustainability Officer. In 2008, An led CDL to publish its first sustainability report and in 2017, issued Singapore's first green bond. Today, CDL ranks amongst the top 100 global sustainable corporations in the world,³ participating in many international events across sectors and providing a Singaporean voice on many standard setting bodies.

The board and key management levels must be the pioneers for sustainability efforts, establishing a direction that can cascade down. With an aligned vision and tone, a sustainability culture can be nurtured, influencing behaviour, and encouraging strong corporate governance.

Key stakeholders should be identified and engaged by a core sustainability committee. To be successful, members of this committee should preferably be individuals who are

naturally passionate about this topic and are willing to build a network in similar communities. In organisations where this is done mechanically, it would rarely amount to anything more than tabletop plans.

When there is a meaningful plan to engage the relevant parties, and the feedback received is sound and relevant to the desires, needs, and expectations of the various stakeholders, this can enhance the execution of the organisation's sustainable development vision. One main group which is often overlooked are employees of the firm, who form an important group as readers of the sustainability report.

Stage 2: Identify material matters

One downside of reporting is the overwhelming task of collecting and managing sustainability data, which is aggravated in organisations whose staff lack a sense of ownership. It is key to establish a clear, structured, and standardised data collection process. The organisation needs to form dedicated teams that would be the data owners responsible for defined metrics, who would use existing data for disclosure, and maintain a continuous cycle of reviewing and refining data usage. When commencing such a data-gathering exercise, one may begin with simple manual collation before transitioning to automated means. Organisations tend to see this as the cumbersome non-value add to reporting as most are non-financial in nature, and the duty for this may rest with units outside of finance. Using CDL as an example, its sustainability report is compliant not only with the Global Reporting Initiative Standards but those of other institutions, including the Climate Disclosure Standards Board and Sustainability Accounting Standards Board. This is possible due to the many years of institutionalising a firm-wide data-gathering protocol.

Environmental, Social, and Governance (ESG) issues should be identified and ranked based on strategic importance to ensure that support will be broad-based and disclosed. Some material matters include those related to governance and policy, as well as environmental, social, and economic matters. These would normally align with the organisation's vision and mission. Often, there may even be a need to revise the current ones to preserve the principles of sustainability when pursuing long-term possibilities. Over time, certain non-material matters may also creep into business plans which could distract management's attention and divert resources elsewhere. These should be eliminated. A good way to prevent scope creep is to do zero-based budgeting and review non-performing programmes to root them out.

Stage 3: Set sustainability policies, practices, and targets

This is where clear internal policies, practices, and performance targets need to be set out, based on the material factors identified above. Quantitative and qualitative information will form the basis of data to be collated for the reporting period. Additionally, performance should be contextually described according to past disclosed targets. Following this, short- and long-term targets for each identified ESG factor will be set for subsequent reporting periods, with companies ensuring that these targets are specific, measurable, achievable, relevant, and time-bound. An example would be to measure the firm's initial carbon footprint generated by overseas business travel, and then setting a target to reduce it year on year. Some more forward-looking companies have begun to set carbon budget targets in addition to financial targets.

In annual planning cycles, these are then cascaded to all levels with key performance indicators (KPIs) set for regular review and monitoring. External benchmarking could also aid in gathering best practices from organisations with similar functions. An HR performance matrix should be formulated to recognise contributions on sustainability fronts, rewarding such efforts even when related roles are secondary to core functions. An example will be to track sustainability initiatives as part of annual workplan submissions. This could range from the use of utilities, stationery, and offsite storage of hardcopy documents at one end of the spectrum to staff using public transport and corporate trips carpooling at the other end. A good start would be to get the company certified as "Eco Office" by the Singapore Environmental Council.

Stage 4: Data collection and compilation, and report drafting

In this stage, approved processes, systems, and controls where appropriate will be executed to compile reliable data that is aligned to the identified sustainability KPIs. This can be done by ensuring that people responsible for different tasks are identified, regular checks on progress are conducted, and information is collected and compiled in a systematic way. As the compilation progresses, these principles should be incorporated into the report: impactful narrative of key sustainability issues, compliance with reporting standards, effective communication, and timely delivery. Consistency in methodology could also be used to facilitate continuity in trend analysis.

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Stage 5: Performance management

During the implementation of a sustainability performance management process, deliverables from Stages 3 and 4 will be taken to identify performance gaps against targets, as well as feedback gathered from internal and external stakeholders. With this, policies, practices, and targets can be further refined. Subsequently, the planning and execution of new projects can be done to further improve the organisation's performance. Additionally, the organisation can choose to obtain independent external assurances to strengthen the case for further sustainability disclosures.

WHAT HAS WORKED (FOR ME)

In pioneering sustainability reporting in my previous roles, the most important issues are culture-building and change management. For organisations starting on their sustainability journeys, I would encourage them to take the following steps.

First, get a sponsor at the highest level, who is invested in making sustainable reporting succeed in the organisation and is ambitious enough to scale with incremental progress as this is a marathon.

Second, start with a pre-determined series to spread out timelines and set feasible targets. Do not aim to start with a big bang as the process itself needs time and energy to unfold and evolve. Think of it as different milestones to be achieved over five years and plan for all parts at the beginning through an easy-to-understand vision, which is supported by an executable framework with different owners taking charge of their individual portions.

Third, have a small, dedicated core team supported by a virtual team of like-minded champions who have the passion to lead this project. Recognise that not everyone has the same level of enthusiasm to be involved in a fairly new domain which is ever-changing, and they will need to constantly stay on top of it. Bringing individuals on board with prior experience will be a plus.

Fourth, benchmark your organisation against the best in class from around the world, and do not be afraid to try, learn, and even relearn. More self-organised interest groups should be formed to share information on specific topics within the organisation. In any case, it may also serve the organisation well to be positioned as a leader in its industry and be a magnet for thought leadership.

And finally, develop a network of friends in the community to support similar initiatives.

LOOKING AHEAD, BEYOND THE BUZZWORD

Sustainability is no longer just a buzzword. Its adoption will be uneven across sectors and industries due to varying international pressures, regulations, and peer expectations. As practitioners gain momentum, they may bring along like-minded supply chain partners into the ecosystem, leading to an exclusive green partnership for early adopters. This poses a threat to those who may embrace it later. Hence, rather than wait for regulations to be mandated, why not start reporting on a smaller scale and then increase your intensity over time so that sceptics in your organisation can catch up? This way, you can also profess a commitment to collaborate with your fellow partners.

That said, it is a matter of time before sustainability reporting becomes part of the annual reporting to boards and the authorities. This is a fact that must be accepted. Closer to home, Singapore Exchange has mandated a 'comply-or-explain' sustainability reporting policy for public-listed companies since 2017. Over the years, it has implemented more reporting conditions in line with Task Force on Climate-Related Financial Disclosures requirements after a public consultation in 2021. From 2025, climate reporting has been mandated for issuers in the finance, agriculture, food and forest products, energy, materials and building, and transportation industries.

Many professional bodies around the world are stepping up on awareness creation, developing publications on updates, conducting forums to gather feedback on exposure drafts to propose new standards, propagating knowledge through seminars, and getting their organisations to lead by example. It is time for accountants from all sectors to be aware of the progress made along the sustainability front and start getting involved in sustainability reporting in their organisations. ^{AMU}

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Endnotes

- ¹ The triple bottom line is a sustainability framework which evaluates the degree of a business's success in three domains: profit, people, and the planet.
- ² Bryan Strickland, "Historic Global Standards for Sustainability Reporting Released", *Journal of Accountancy*, June 2023.
- ³ Mike Scott, "100 Most Sustainable Companies of 2023 Still Flourishing in Tumultuous Times", *Corporate Knights*, January 18, 2023.