Social and Environmental Impact Should Affect Financial Profits – Help Us Achieve This

Changing the way the world accounts for value is our mission at Social Value UK, and our latest research shows that the UK public shares our goal.

Times have changed, and as the public increasingly want to see businesses act in a more ethical way, this needs to be reflected in the accounting system. Much research exists that complements our findings and shows that consumers are buying more ethically and working for companies that operate more responsibly. There are lots of initiatives out there to change the way businesses behave, but in the accounting world, this is distinctly lacking. If the accounting system does not catch up with the needs and values of the public and investors, we risk an economy which generates financial profit leads to the detriment of society and the environment.

In 2019, Social Value UK and YouGov published research into how the UK public views the current standards of financial reporting for businesses, and what information they think should be included in the overall calculation of profit. SVUK worked with YouGov develop a set of questions and collect of responses from a representative sample of 639 adults in the UK.

Some of our key findings include:

- **85% wanted their investments to account for more than just financial returns**
- **40% thought it should be mandatory for companies to include financial, social and environmental value when determining the overall profitability of a company. This is highest amongst millennials (25-34-year olds), where it increases to 44%.**
- **76% thought that social and environmental information should either be made available in a company’s accounts or be included in the calculation of overall profitability of a company.**
- **65% didn’t know companies don’t have to include social/environmental value created and/or destroyed**
- **75% were unaware that the public, through influencing government policy, can decide what information goes into company accounts.**

These results clearly demonstrate two things;

- A sizeable proportion of the UK public want to see businesses go beyond accounting only for financial value by including the social and environmental impacts of their activities.
- More needs to be done to educate the public about how they can influence decisions around the information businesses are required to report on.
Call to action

To take this further, we need your help to show that this is the case globally. We encourage you to use the questions from our survey, included below, to explore how the public in your country of operation feel about the accounting and reporting standards of businesses. In this way, we can show that many the world over are calling out for change.
We can transform capitalism by changing the basis for financial accounting to reflect 21st century attitudes

Forget the ‘triple bottom line’; to advance prosperity and protect the planet, businesses need to change the way they account for value – and that’s increasingly what the public wants

This year marks the 25th anniversary of the “triple bottom line” accounting framework. Coined by green business guru Sir John Elkington, the concept encourages companies to focus not just on financial performance, but to ensure that they also assess their social and environmental impact.

While corporations have become increasingly attuned to the sustainability agenda over the past quarter of a century, public trust in business remains at historically low levels, and there is growing evidence that the corporate sector is lagging behind public expectations in this important field.

So maybe in 2019, we should be striving for a paradigm shift and start thinking more radically about the basis of financial accounting.

The purpose of accounting is to provide enough information about a business for investors and other stakeholders to assess its value, and conventional wisdom holds that stakeholders only care about financial value.

But new research commissioned by Social Value UK suggests that this old-fashioned approach is not consistent with the attitudes of a large percentage of the general public. Our YouGov study shows that 85 per cent of the public do not want their investments to maximise financial returns with no regards to social or environmental impact.

This suggests that a sizeable proportion of the public would like to take the concept of the triple bottom line a step further – by integrating their financial, economic and social performance reporting into one integrated balance sheet. So if a business shows a profit in pure financial terms, but their factories cause air pollution and ill-health amongst the local population, this negative social and environmental impact will affect its bottom line and its ability to secure investment for the future. Our research showed that 40 per cent of the public believe companies should be forced to account for their social and environmental value, alongside financial value, when calculating their overall profitability.

This idea might sound fanciful, but financial accounts provided by businesses inform many decisions, from setting share prices and dividends to informing macro-economic analysis about whether the economy is performing well. Furthermore, only 11% of people believe only financial value should be included in the calculation of the overall profitability of the company.

If we only consider monetary information when making these decisions, we are not taking account of a company’s true performance, and this is where things go wrong. There is plenty of research to show that investor motivations are changing, and this is
clearly evidenced by the rise of ESG and now impact investing. Investors obviously want to make a financial return; but increasingly they do not want this to come at the expense of society and the environment.

In fact, all stakeholders – from governments and regulators, to investors, consumers and employees – are now demanding more of businesses, for example in the mapping and management of their social and environmental impact.

As these non-financial reporting requirements continue to increase, there has been growing discussion about the purpose of financial reporting and the audience for it. The Financial Reporting Council has announced a major project to challenge existing thinking about corporate reporting and consider how companies should better meet the information needs of shareholders and other stakeholders. The recent surge in non-financial reporting requirements and sustainability initiatives is to be welcomed.

But unless we reform the way businesses account for value, most decisions will continue to be made based on financial information, with data about the environment or social impact sitting separately, unstandardised and unaudited. What Social Value UK’s research suggests is that there is support for hard-wiring social and environmental impact into the overall calculation of a business’s profitability.

A growing body of professionals are on board and have shown that it is possible to account for non-financial factors such as social and environmental impact. In 2012, Puma developed the Environmental Profit and Loss Account under the belief that businesses should account for the cost to nature of doing business. The methodology is not yet perfect, but through the existing accountancy and audit profession there is an opportunity to radically reshape the way that we calculate the value of a company and therefore encourage the rewarding of companies that adopt a broader concept of the value they create, while allowing those who see value in purely monetary terms to be side-lined.

John Elkington, creator of the ‘triple bottom line’ stated "the evidence is piling up that capitalism is at some sort of inflection point, some would even say broken."

On the survey results, he said: "The YouGov survey commissioned by Social Value UK suggests that there may now be a seismic shift under way in public attitudes about capitalism, business and corporate accountability."

He continued: "The market and political pressures for change have taken a long time to build. Now the stresses and frictions that a growing number of business and government leaders face mean that the real question they - and we – are asking is what should we can - and must - do about it?"

Economists across the world are proposing solutions to fix the economic system – governments are thinking about inclusive capitalism, the OECD is thinking about wellbeing, the IMF argues that inequality is reducing growth.

There is a consensus that the economy needs to be considered in a different way if we are to tackle the global challenges of the 21st century caused by population growth, declining natural resources and rising inequality. A fundamental change to the basis of our financial accounting system should be part of this thinking.
Questions used by Social Value UK and YouGov in their survey of the UK General Public.

How interested are you in how companies and businesses report their accounts?

Very interested
Quite interested
Neither interested nor uninterested
Not very interested
Not at all interested
Don't know

Did you know that the public, through influencing government policy, can decide what information goes into company accounts and therefore what determines the profitability of a company?

Yes
No

Did you know that companies do not have to include social and environmental value created or lost in the calculation of their overall profit or loss?

Yes
No

What information do you think should be included in calculating the overall profitability of the company?

Only financial value should be included in the calculation of the overall profitability of the company.

Only financial value should be included in the calculation of the overall profitability of the company. But the social and environmental value should be made available separately if I want to look at them.

Financial value, social value and environmental value should all be included in the calculation of the overall profitability of the company.

Don't know

Lots of us have investments of some sort (i.e. pensions, stocks and shares etc.). If you do have investments, what do you want these investments to achieve? If you do not have any investments, imagining you did, what would you want them to achieve? I want/ would want my investment to...

...maximise financial returns with no interest in the social or environmental impact of the investment.

...maximise financial returns without significant damage (more harm than good) to people or the environment.

...make some financial profit and know that some positive social and/ or environmental value has been created.
...maximise social and environmental value but not if it causes significant financial loss.

...maximise social and environmental value with no interest in the financial returns of the investment.

**How many of the people in your household are under 18?**

0
1
2
3
4
5
6 or more
Don’t know
Prefer not to say

**How important are the following issues to you personally?**

**The environment and global warming**

Very important
Quite important
Neither
Not very important
Not at all important
Don’t know

**Nuclear weapons**

Very important
Quite important
Neither
Not very important
Not at all important
Don’t know

**Unemployment in the UK**

Very important
Quite important
Neither
Brexit
Very important
Quite important
Neither
Not very important
Not at all important
Don’t know

The housing situation in the UK
Very important
Quite important
Neither
Not very important
Not at all important
Don’t know

Crime and violence in the UK
Very important
Quite important
Neither
Not very important
Not at all important
Don’t know

The NHS
Very important
Quite important
Neither
Not very important
Not at all important
Don’t know
**The UK economy**
Very important
Quite important
Neither
Not very important
Not at all important
Don’t know

**Immigration in the UK**
Very important
Quite important
Neither
Not very important
Not at all important
Don’t know

**UK defence / foreign affairs**
Very important
Quite important
Neither
Not very important
Not at all important
Don’t know

**Gross PERSONAL income is an individual’s total income received from all sources, including wages, salaries, or rents and before tax deductions...What is your gross personal income?**

under £5,000 per year
£5,000 to £9,999 per year
£10,000 to £14,999 per year
£15,000 to £19,999 per year
£20,000 to £24,999 per year
£25,000 to £29,999 per year
£30,000 to £34,999 per year
£35,000 to £39,999 per year
How much, if anything, do you have saved at the moment in ALL your savings accounts? Please select only one answer.

Less than £100
£100-£249
£250-£499
£500-£999
£1,000-£1,999
£2,000-£2,999
£3,000-£3,999
£4,000-£4,999
£5,000 to £9999
£10,000-£19,999
£20,000-£29,999
£30,000-£39,999
£40,000-£49,999
£50,000-£74,999
£75,000-£99,999
£100,000 and above
Don't know
Prefer not to say
Not Applicable
Regardless of the particular job that you do, in what industry does your company work?

Accounting
Agriculture (farming, livestock)
Airlines or air travel
Hotels or lodging
Tourism / tour operator / travel agency
Other travel services
Arts, entertainment, and recreation
Business services (e.g. accounting, consulting, advertising, business or market research)
Construction
Education
Engineering, design, or architecture
Financial Services: Banking
Financial Services: Brokerage & Investment
Financial Services: Insurance
Financial Services: Other
Health or medical services
Law or legal services
Leisure (gyms, fitness, sports, leisure centres etc.)
Maintenance and repair
Manufacturing: Automobiles or automobile-related
Manufacturing: Heavy industry or machinery
Manufacturing: Technology, computers, electronics
Manufacturing: All other
Media and communications
Natural resources (e.g. oil, mining, forestry)
Personal care and services
Real estate
Restaurant services
Retail
Scientific research
Technology services
Transportation
Wholesaling
Other
Not applicable

What is the highest educational or work-related qualification you have?
No formal qualifications
Youth training certificate/skillseekers
Recognised trade apprenticeship completed
Clerical and commercial
City & Guilds certificate
City & Guilds certificate - advanced
ONC
CSE grades 2-5
CSE grade 1, GCE O level, GCSE, School Certificate
Scottish Ordinary/ Lower Certificate
GCE A level or Higher Certificate
Scottish Higher Certificate
Nursing qualification (e.g. SEN, SRN, SCM, RGN)
Teaching qualification (not degree)
University diploma
University or CNAA first degree (e.g. BA, B.Sc, B.Ed)
University or CNAA higher degree (e.g. M.Sc, Ph.D)
Other technical, professional or higher qualification
Don't know
Prefer not to say

What ethnic group best describes you? Please select one option only. (We ask the question in this way so that it is consistent with Census definitions.)

English / Welsh / Scottish / Northern Irish / British
Irish
Gypsy or Irish Traveller
Any other White background
White and Black Caribbean
White and Black African
White and Asian
Any other Mixed / Multiple ethnic background
Indian
Pakistani
Bangladeshi
Chinese
Any other Asian background
African
Caribbean
Any other Black / African / Caribbean background
Arab
Any other ethnic group
Prefer not to say

Which daily newspaper do you read most often?

The Express
The Daily Mail / The Scottish Daily Mail
The Mirror / Daily Record
The Daily Star / The Daily Star of Scotland
The Sun
The Daily Telegraph
The Financial Times
The Guardian
The Independent
The Times
The Scotsman
The Herald (Glasgow)
The Western Mail
Other local daily morning newspaper
Which, if any, of the following TV networks do you watch live (by live we mean watching programs at the time that they are actually broadcast) regularly (at least once a week), whether on TV, desktop/laptop or mobile/tablet? Please select all that apply.

4seven
5 USA
5STAR
Al Jazeera
Alibi
Animal Planet
BBC One
BBC Three
BBC Two
BBC Four
BBC News
Bloomberg
CBeebies
CBS Action
CBS Drama
CBS Reality
Challenge
Channel 4
Channel 5
CNBC
CNN
Comedy Central
Dave
Discovery Channel
Disney (any Disney channel)
E! Entertainment
E4
ESPN
Euro News
Eurosport
Film4
FOX
Gold
Good Food
Home
ID (Investigation Discovery)
ITV
ITV2
ITV3
ITV4
ITVBe
ITV Encore
London Live
More4
MTV (any MTV channel)
National Geographic
Nickelodeon
Pick
Quest
RT
S4C
Sky 1, 2
Sky Arts
Sky Atlantic
Sky Living
Sky Cinema (formerly Sky Movies)
Sky News
Sky Sports Channels
TLC
TNT
Universal (previously Hallmark)
VH1
W (previously Watch)
Yesterday
Don’t know
Not applicable
None of these

**Which, if any, of the following catch-up or on-demand services have you used to watch TV programmes in the past 30 days (on any device)? Please select all that apply.**

All 4 (formerly 4OD)
Amazon Prime Video
nosquare
BBC iPlayer
Blinkbox
BT TV
BT Vision
Clubcard TV
Curzon Home Cinema
Demand 5
EE Film
Google Play
iTunes
ITV Hub (formerly ITV Player)
Netflix
Now TV
PictureBox
nosquare (1)
Sky Go
Sky Store
Sony Entertainment Network
Sony PlayStation Store
TalkTalk TV
Vdio
Xbox Live/ Video
YouTube (TV shows)
None of these
Other
Don’t know

Not applicable – I have not used a catch-up or on-demand services in the last 30 days