

# 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 21<sup>st</sup> 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 25<sup>th</sup> 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 21<sup>st</sup> 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.

ENDS

**Appendix**

## 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

Not very important

Not at all important

Don't know

**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

£40,000 to £44,999 per year

£45,000 to £49,999 per year

£50,000 to £59,999 per year

£60,000 to £69,999 per year

£70,000 to £99,999 per year

£100,000 and over

Don't know

Prefer not to answer

**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: Bankin

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 CNA first degree (e.g. BA, B.Sc, B.Ed)

University or CNA 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

Other Newspaper

None

**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

nosquare

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