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How might accounting, and the role of accountants and assurance providers, evolve to contribute to the creation of a more sustainable society?

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**Introduction**

Think about the cup of coffee that you drank this morning. Where did the coffee come from? Which farmer grew those coffee beans and how do you know if the farmer was paid a living wage? With a commodity that is processed up to 7 times during its journey, how do you trace one smallholder farmer’s output from 5 hectares of coffee trees to the coffee cup?

There are big challenges in verifying the amount paid for coffee and if every farmer in a cooperative complies with the same ethical and environmental practices. This question is at the heart of the sustainability movement in the coffee industry, a movement that is growing as the key players realize that without investment in sustainability now, the future of coffee is under threat from climate change and a declining farmer population.

Through a case study example of the coffee industry I shall explore the role that accountants and assurance providers have to play in contributing to a sustainable society. While coffee is a specific example based on my experience of working in the industry, the ideas and key themes can be applied across all businesses.

**Background to sustainability in businesses**

Most commodities make money through utilising and depleting the world’s natural resources. Through producing, importing and exporting commodities these companies will be among the first to be directly affected by climate change. All stages of the supply chain will be affected: from supply of raw materials, processing into a finished product and logistics of transporting from origin to end countries. Combatting the effects of climate change is therefore key to continued supply and economic growth.

In addition, supply of raw materials generally comes from the world’s poorest countries. Apart from a moral understanding of the ‘right’ way to do business and to treat people equally, there is a growing realisation that long term supply of the raw materials is not sustainable without paying a living wage.
This is the heart of sustainability, which is generally agreed to be 'the ability to meet present needs without compromising the ability of future generations to meet their own needs' (Brundtland, 87).

A sustainable society develops this idea further to a society that focuses on equality, balance between use of natural resources and growth and economic empowerment across the globe. The society therefore focuses on three ‘pillars’: financial wealth for all, global social equality and environmental protection: maintaining ecological balance without depleting natural resources (Brundtland, 87).

![Image: The three pillars of a sustainable society.](image)

Everyone can do their part towards creating a sustainable society but businesses are intrinsically linked to financial wealth and environmental protection and provide a vehicle for driving the creation of these societies. You can also argue that it is a business’ responsibility to educate customers and stakeholders about their products and the effect that consumption of these has on the world. In a more positive light, multinational companies with high ethical practices have the power to influence governments and people across the globe. The challenges of creating a sustainable society are global, particularly environmental issues, and multinational businesses can be a powerful force to drive positive global changes.

Business’ commitment to sustainability requires a shift from a short-term to a longer-term mindset. The issues of global poverty and environmental damage cannot be fixed overnight: they will require long-term investments and priority over short-term growth in profits.
Traceability in Coffee

Coffee is the second most important traded commodity due to its direct impact on the livelihood of people: an estimated 25 million smallholder farmers produce 80% of the world’s coffee (Fairtrade Foundation). Although coffee is produced by some of the world’s poorest countries, it is consumed by the world’s wealthiest: the US, Europe and Australasia consume 73% of the world’s coffee (International Coffee Organisation).

The vulnerability of farmers in these countries and effects of climate change will have a drastic effect on future supply. It is estimated that changing temperature and rainfall in Central America will reduce the area where coffee is grown by approximately 80% by 2050 and the global areas suitable for growing coffee by up to half (The Climate Institute, 2016). For the supply of coffee to continue to meet rising demand the whole coffee community including growers, exporters and roasters must shift their focus towards sustainable sourcing. This includes protecting the supply from climate change and the coffee growers from the effects of poverty that can prevent them producing coffee. The change needs to happen immediately to protect a vulnerable commodity.

Various initiatives such as Fairtrade, Rainforest Alliance and Utz have paved the way for sustainability: instituting ethical and environmental business practices. The coffee community is responding, driven in part by consumer trends towards ethical and organic sourcing. Coffee roasters have traditionally relied on these third parties to provide authenticity to their claims of sustainable supply chains. However, there are challenges in tracing coffee back to its original owner, verifying what was paid to that farmer and that they comply with ethical practices.
Figure 2 shows the flow of coffee from the farmer to the final consumer of coffee. The number of processes and middle men varies across countries but this demonstrates the difficulty in tracing a smallholder farmer's output into one cup of coffee.

Roasters need to be able to verify their ethical sourcing claims. Without this traceability they are also at risk of reputational damage and loss of business through ethically conscious consumers, who are willing to pay a premium for ethically sourced and organic products, and prepared to shun companies that do not have ethical business practices.

One way of achieving this is a vertically integrated and fully transparent supply chain: farmers working directly with exporters, importers and with a direct link to roasters. It is much easier to implement and monitor ethical and environmental practices throughout the supply chain when the chain of ownership is clear and there are strong partnerships. Figure 3 shows the model of Falcon Coffees, a coffee importer/exporter who work collaboratively with origin partners to build fully integrated supply chains.
Two key components in asserting sustainable business practices are traceability and transparency: traceability identifies each point of ownership in the process and transparency charts the flow of funds from source to final owner. In order to have traceability and transparency businesses need to be able to both measure and report these two points accurately. And this is where the role of accountants and assurance providers come in.

**What is the role of accountants?**

Who is better placed to measure, review, analyse and report on traceability and transparency than accountants?

Preparation, review and analysis of financial figures forms the majority of accounting roles with measurement and reporting at the heart of this. An accountant’s logical and analytical skills combined with a commercial mindset will support the identification of traceability and transparency metrics. It requires a creative approach not solely based on financial knowledge to identify easily measured metrics that can be applied consistently across multiple countries. For example, if you were to measure family size, is the Ugandan concept of family the same as Brazilian? How can this be standardized?

Next are issues of measurement. Obtaining information about a rural and illiterate population in hard to access areas without access to technology is a challenge. Then how do you record and store this information. Various app-based technologies don’t work in rural areas where most people don’t have smartphones and hardware isn’t robust enough.

With innovative thinking, accountants can work alongside sustainability professionals to identify appropriate metrics for social and environmental reporting and put in place robust measurement frameworks. They can then collaborate with assurance providers to create a reporting framework that captures the three pillars of sustainability and produces reports that are easy to interpret and compare across industries.
What is the evolving role of assurance providers?

Assurance providers have a key role to play in the traceability puzzle. Once the data is recorded and stored how can this be verified? The usual audit approach of sampling ceases to be appropriate when you are talking about maintaining ethical and environmental standards and where over 100 farmers (in Rwanda specifically) can contribute to one container of coffee. As in any audit, it is impossible to review every farmer transaction, but assurance is meaningless when you are unable to verify whether all farmers have good business practices and are being paid a living wage.

Assurance providers will need to develop a new approach, likely using technology such as blockchain to verify 100% of transactions and to provide credibility to traceability claims. With difficulties in location, access to technology and lack of financial acumen by those on the first steps of the transactions this represents a challenge that both assurance providers and multinational companies will need to work together to develop. Technology to achieve this is expensive and long term to develop and companies will need to collaborate to come up with a shared approach. However, the long-term benefits of this collaboration will benefit whole industries.

Assurance providers are ideally placed to support the development of technologies which can help to measure sustainability and traceability, such as blockchain, a publicly accessible decentralised ledger. This new technology has the potential to revolutionize the way that traceability of products is measured but its application into mainstream use will need to be driven by industries who can be independent and implement regulation to ensure appropriate use.

In addition to supporting the verification process, the role of Assurance services will develop as new requirements to report on Social and Environmental metrics are created. The move towards a sustainable society will drive changes in reporting standards and regulations by global stock exchanges on companies’ reporting. They can help to standardise key metrics, provide thought leadership and support companies looking to measure and report on these new metrics.
Conclusion
The case study of traceability in coffee supply chains demonstrates the challenges but also the opportunities available for accountants and assurance providers to work together both for the benefit of society and the environment. Coffee is ahead in the sustainability puzzle: if the ideas can be implemented across all agricultural commodities, this could drive a more sustainable society and increase equality for vulnerable people all over the world.

Accountants have the training and skills to be at the forefront of developing sustainable business practices and contributing towards a sustainable society. It will require innovation and creative thinking outside of the usual financial parameters, but they are ideally placed to drive change in businesses and to implement robust measurement and reporting practices.

Assurance providers have a large role to play in supporting businesses as they move towards sustainable practices. Their expertise and involvement can help drive technology advances to solve the challenges found in creating a more sustainable society. They can support businesses by providing independent advice and support on best practices and play a key role in regulating new metrics.
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Figures
Figure 1 taken from Wikipedia, Triple Bottom Line:
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Figures 2 and 3 printed with permission from Falcon Coffees Ltd.

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