

Rebels with a cause

In her latest book, Australian author Jane Gleeson-White asks whether accountants have the power to save the planet

Best-selling Australian author and accounting historian Jane Gleeson-White sees accountants as potential revolutionaries with the power to save the planet. Now, there's a thought. They need to be creative, however. And while such tactics are generally associated with the Mafia and corporate crooks, laundering the proceeds of drug cartels or squirrelling profits out of sight of the taxman, Gleeson-White challenges this perception. In her view, accountants need to be creative to trigger 'the revolution capitalism has to have'. Of course, the public generally views accountancy as a rather bookish and mild-mannered profession and hence an unusual home for rebels. But Gleeson-White points out that accounting is a powerful tool in running businesses and steering

economies. After all, the failure of both traditional macroeconomic and corporate entities to consider ecology 'encourages nations and enterprises to pollute, burn, extract and chop with little regard for the consequences'. To reform such wasteful policies, accounting practices must be changed, she says.

Can accountants indeed save the planet? In her latest book *Six Capitals* – a follow-up to her best-selling history of accounting, *Double Entry* – Gleeson-White explores the concept that existing systems fail to account adequately for our challenging, complex times. It is an issue that is increasingly under discussion, both outside and within the accounting industry.

The author points to the key conundrum of economics: 'The fact that neither nations nor corporations account for the damage their lawful activities inflict on >>



nature and society is considered to be a problem of “externalities”, she says.

As long as the focus of government and corporate reporting remains solely on financial value, other sources of value are ignored, argues Gleeson-White's book. A more holistic system would measure man-made or manufactured capital, intellectual, human, social and natural capital as well as financial capital (hence ‘six capitals’). Gleeson-White avoids the notion of ‘costs’, since she argues that economists and executives take the relationship between business and the natural world more seriously by emphasising value.

The accounting industry is certainly shifting in this direction. In August 2010 the Prince of Wales' Accounting for Sustainability Project and the Global Reporting Initiative launched the International Integrated Reporting Committee (now ‘Council’). The aim is to create a global framework for integrated reporting (IR) of financial and non-financial information in one report. The International Integrated Reporting Framework, released by the IIRC in December 2013, asks companies to tell their story by considering their relationship with the six stores of wealth highlighted in Gleeson-White's book, which charts the rise of IR from its first appearance early in the new millennium.

The author is also optimistic about the launch of the US's Sustainability Accounting Standards Board (SASB) in July 2011 to create standardised measures for all kinds of capital: ‘SASB's place in the heartland of finance was cemented in May 2014 when former SEC chair Mary Schapiro became its vice chair – together with Michael Bloomberg, the founder of the financial information empire as chair,’ Gleeson-White points out. The SASB is unabashedly focused on capital markets, but ‘making sustainability information cogent for investors is breaking new ground’, she says.

In traditional economics, the environment and the wider community are seen as being outside the workings of commerce. This is mirrored in the way the world is valued, as was famously demonstrated by Raj Patel, a former World Bank economist, in a thought experiment called the ‘\$200 hamburger’. He argued that the reason burgers sell for a fraction of this figure is because their price does not reflect the real cost of producing them, such as their carbon footprint, impact on water usage and soil degradation, or the costs stemming from diet-related illnesses such as heart failure or diabetes.

‘Traditional accounting models do not take these costs into account, but they still have to be paid,’ writes Gleeson-White in *Six Capitals*. If the food producers don't foot the bill, society as a whole does – in the form of extreme weather events, the depletion of resources and rising costs for health systems.

She is far from being alone in her views, of course. US senator Robert F Kennedy said famously in 1968 that gross domestic product (GDP) ‘measures everything, except that which makes our life worthwhile’. And 40 years later, the 2008 *Living Planet Report* by the World Wide Fund for Nature (WWF) calculated that humans

are running a planet-wide ‘ecological debt’ of more than US\$4 trillion annually.

Gleeson-White has recently returned from New York, where she was invited to speak to members of the Accountants Club of America and to meet hedge fund managers and journalists. ‘I had a receptive audience. Many American accountants and fund managers are really interested in ways to make accounting respond to the pressing issues brought by the idea of sustainability.’ She believes Hurricane Sandy, the storm that shook New York in 2012, underlined the risks posed by climate change, but also that such concerns have special resonance in accounting, where many senior professionals believe the industry needs reviving.

In a commercial world dominated by branding and goodwill, where often only 20% of a company's actual value is written as tangible assets in the books, Gleeson-White says it's time economists stopped ‘looking down on accountants as mere number-crunchers’. So many bookkeepers actively invite change in company policies, she adds.

As an accounting historian, Gleeson-White takes a long view and says the time is ripe for a sea-change in how business and government is reported in numbers. Humanity has already seen two major economic revolutions: the agricultural one in the 18th and early 19th centuries, then the industrial one in the 19th and 20th centuries. Now it is dealing with a third:

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information technology and the internet.

Since Luca Pacioli in Venice codified double-entry bookkeeping in 1494, accountancy has adapted to new industries and business models. Gleeson-White cites Josiah Wedgwood, who in the 1770s built the world's first industrial pottery factory in England. Encountering serious cashflow problems and overflowing stock during a recession, he turned to his accounts and discovered the distinction between fixed and variable costs, uncovering the economies of scale, cost accounting and commercial benefits of mass production.

‘After Wedgwood's first foray into cost accounting, it took accountants and business people more than a century to work out how to apply Italian mercantile bookkeeping to factory production, but it did adapt,’ says Gleeson-White. It is only logical then that ‘in the information age accounting has to adapt again’.

Which is fine in principle – but tough in practice. Gleeson-White admires Karl Marx, not necessarily for his politics, but for his merits as an economic historian and his courage to challenge the establishment of his time. But unlike the self-assured Marx, she struggles



Jane Gleeson-White

Born in Sydney in 1961, Gleeson-White studied English, French literature and philosophy at the University of Sydney, followed by an internship at the Peggy Guggenheim Collection in Venice. Back in Sydney, she took a Bachelor of Economics and thanks to a charismatic accounting lecturer was introduced to the connection between Venice and the origins of modern accounting. So her love of Venice, art and beauty got 'flipped in most nefarious ways into a passion for accounting'. Her book *Double Entry: How the Merchants of Venice Shaped the Modern World – and how their invention could make or break the planet*, was published in 2012 and *Six Capitals: The revolution capitalism has to have – or can accountants save the planet?* came out in 2014. janegleesonwhite.com

with the potential impact of her own ideas.

Accounting for unpriced nature brings back the risk of its commodification, she says. 'If you put a price on water, it might mean it goes to the rich mining company instead of to a thirsty but poor local community.'

When Puma, the German sporting goods manufacturer, developed an environmental profit and loss account in 2011 by putting a nominal monetary value on its impact on nature along the entire supply chain, it found it had used €145m worth of nature – more than two-thirds of its net profit of €202m. In this way, accounting has the power to demonstrate the immense unpaid costs of how nature's free goods and services are consumed through commercial activities. And while this is positive, says Gleeson-White, there is a risk that by pricing nature financially, people may cease to value it for itself.

And, of course, it is one thing to start pricing nature, but quite another to do so well or efficiently. The experience of the European Union, with its emissions trading scheme (ETS) attaching a financial value to each tonne of CO2 emissions to make it tradeable, worries Gleeson-White. The ETS may have placed climate change on

the agenda of European businesses, but rock-bottom prices for emission allowances have given industry little incentive to diversify away from fossil fuels. 'There are no clear-cut answers when it comes to natural capital accounting and pricing externalities,' she admits.

Gleeson-White's latest book is certainly empirical, calling for full accounting for all six forms of capital. This, she argues, would give rise to entire new industries in recycling, saving and reallocating resources. And financial markets like the bigger picture offered by holistic accounting: 'Accounting for more than the financial value is also good management.' It might also help to win the war for talent: many gifted young people prefer to work for corporations that try to rein in their environmental impact.

What's more, she explains, better accounting of the so-called externalities will create more work for the sector and potentially enhance the prestige of the profession. Rebels come in all kinds of disguises, after all. ■

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