

Sustainability Reporting and the Supply Chain

Consider, for a moment, the supply chain that must be employed to produce and sell cups of coffee to morning commuters at a drive through service window. How many factors must the coffee bar's analyst include in the process flow analysis?

There is the acquisition and use of product ingredients, of course, including the disposable cups, the dollops of skim milk, the packets of sugar, and the paper napkins. There is also the employment of service staff, the use of the building and equipment, the creation and distribution of marketing material, etc.

But what about the factors that cannot be controlled by the coffee bar, factors with costs that are externalized to (i.e. incurred and paid by) outside parties? The environmental cost of the automobile exhaust fumes, for instance, that are pumped into the atmosphere when vehicles creep forward at the drive through line?

Or the environmental cost of managing the waste streams of paper cups that are thrown into the trash bins of employers? Or the human cost of sugar plantations that employ child laborers during the harvest season?

These data components of the supply chain are increasingly covered by new disclosure laws and regulations. The European Commission of the European Union, for instance, has been promulgating legislation such as the:

- **Non-Financial Reporting Directive (NFRD);**
- **Corporate Sustainability Reporting Directive (CSRD);**
- **Directive on Corporate Sustainability Due Diligence (CSDD).**

Many of these legal requirements are not solely applicable to firms that are based in the European Union. They are also applicable to non-European firms that maintain significant direct operations in the European Union or that contribute significantly to the value chains of European firms.

U.S. legislation is also evolving towards greater disclosure requirements. The United States Securities and Exchange Commission (SEC), for instance, is developing a set of climate change disclosure requirements that is expected to be issued in final form later this year.

The regulation is **considered by some to be controversial in nature**. In fact, it has been delayed from its original expected issuance date. Nevertheless, it is still expected to evolve into a legal requirement in the near future.

A century ago, many (if not most) of the corporate financial disclosures that are considered routine today were seen as radical and unworkable impositions on the business community. The SEC itself did not even exist one hundred years ago; it was later created during the Great Depression of the 1930s.

There's no way to know whether these new supply chain disclosure regulations will become as routinely accepted as our longstanding financial reporting requirements. Whether or not they are embraced in the future, though, they clearly must be addressed by the business community in the present.

Is this information helpful? If it is, please consider joining our new Sustainable Value online interest group. Join a community of CPAs who share your professional interests!

Contact Kristie Ondracek at kondracek@txcpahouston.cpa for details.

Author:

Michael Kraten, PhD, CPA

A PhD and CPA who specializes in the development of business strategies that generate long term sustainable value.

I specialize in the analysis of business opportunities and risks with complex factors and highly uncertain outcomes.

I am the Director of Accounting Program Initiatives at the University of Houston, where I design and teach Sustainability / ESG content. In this role, I also design and support programs that address the "pipeline" challenge of attracting students to the Accounting profession.

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