Natural Capital – what do accountants think?
During 2012 ACCA, in partnership with KPMG and Fauna and Flora International (FFI), published the report *Is natural capital a material issue?* The report investigates the concept of materiality, how it is used to identify issues for management and disclosure and the extent to which it currently reflects the significance of natural capital as a business issue.

In order to gather the views and opinions of accountants on natural capital, ACCA conducted a survey of its membership. The key findings of this survey are presented in this paper.

This paper is the first in a series of articles that expand upon the research conducted for the ACCA/KPMG/FFI project.
The information presented in this paper represents:

218 completed surveys

50 countries, including the UK (15%), Malaysia (10%), Ireland (8%), Mauritius (6%) and Pakistan (4%).

17 sectors, including the construction, oil & gas, public sector, consulting, transport and manufacturing industries.

13% who were either CFOs or Finance Directors, with a further 5% being CEOs or other executive board directors. 8% of respondents were financial controllers and 19% held a management position.
The long term success of many organisations is dependent on the natural world.

63% of accountants agreed or strongly agreed that the long term success of their organisations is dependent on the natural world.

81% of accountants agreed or strongly agreed that the private sector has a responsibility to protect the natural environment.
Accountants surveyed identified a number of different risks to their operations that are associated with natural capital. These included physical risks that disrupt an organisation’s activities and increase input costs; regulatory risks, such as new pricing and compensation regimes; and market risks, such as changing consumer preferences.

The top 5 risks highlighted by accountants have been identified as follows:

1. Reputational risk (68%)
2. Disruption of operations (61%)
3. Scarcity and increased cost of resources (50%)
4. Supply chain risk (47%)
5. Financing risk (46%)

Trends in natural capital pose a range of different risks to the private sector.
The risks posed by natural capital are expected to increase in the future.

The accountants surveyed were asked to identify whether a range of issues were important or very important now, and how that would change over the next 5 years. In all but one case, the importance of the issues increased over time.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Important or very important now</th>
<th>Important or very important in 5 years’ time</th>
<th>Change</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of market share and customer loyalty due to negative impacts on natural capital resulting in impacts on tourism etc</td>
<td>49%</td>
<td>58%</td>
<td>9%</td>
<td>↑</td>
</tr>
<tr>
<td>Reputational, operational or market risks associated with the loss of biodiversity</td>
<td>46%</td>
<td>54%</td>
<td>8%</td>
<td>↑</td>
</tr>
<tr>
<td>Climate regulation</td>
<td>55%</td>
<td>59%</td>
<td>4%</td>
<td>↑</td>
</tr>
<tr>
<td>Access to clean air</td>
<td>57%</td>
<td>58%</td>
<td>1%</td>
<td>↑</td>
</tr>
<tr>
<td>Securing continued access to fresh water</td>
<td>54%</td>
<td>52%</td>
<td>-2%</td>
<td>↓</td>
</tr>
</tbody>
</table>

The top five issues are provided below:
Organisations are taking steps to manage their impacts on natural capital, but could do more.

43% of accountants agreed or strongly agreed that they consider natural capital when making decisions at work. This is a lower proportion than those that felt there are strong links between natural capital and the success of their organisations.

51% of accountants agree or strongly agree that their organisations are taking steps to manage natural capital issues.

### Corporate approaches to managing natural capital

<table>
<thead>
<tr>
<th>My organisation takes steps to manage natural capital issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
</tr>
<tr>
<td>Agree</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
</tr>
<tr>
<td>Disagree</td>
</tr>
<tr>
<td>Strongly disagree</td>
</tr>
</tbody>
</table>
Does your organisation report on natural capital

- Yes – extensively: 3%
- Yes – briefly: 24%
- No: 62%
- Don’t know: 11%

What are the key barriers to reporting on natural capital

- Lack of disclosure guidance: 51%
- Lack of understanding: 49%
- Lack of valuation methodologies: 48%
- No stakeholder pressure: 45%
- The issue is not material: 34%
- Don’t know: 11%
- Other: 4%

62% of accountants surveyed work for organisations that do not report on natural capital, with only 3% of respondents working for organisations that extensively report of natural capital.

Respondents highlighted a number of barriers to reporting on natural capital, the most significant being a lack of disclosure guidance (51%), a lack of understanding (49%) and a lack of valuation methodologies (48%).
Guidance as a means to increase understanding and better manage risks and opportunities

75% of accountants surveyed felt that guidance and training on natural capital issues would help them better manage the risks and opportunities presented by them.
The accountants surveyed were aware of the links between corporate value and natural capital, and that current trends in natural capital present a variety of different risks to businesses that are likely to increase over time.

This awareness however, has not flowed into widespread corporate action. This was best demonstrated by the fact that the majority of accountants surveyed, work for organisations that do not report on natural capital. The key barriers to greater uptake of reporting include a lack of guidance, valuation methodologies and understanding. This last point has also been reflected in the survey, as three quarters of respondents felt that they need training and guidance to better manage the risks and opportunities associated with natural capital.

In order to address this demand, ACCA is continuing its research into the topic of natural capital and will be producing a number of reports and papers over the coming months. ACCA will also be collaborating with expert groups, such as the Natural Capital Declaration, and will be contributing to wider initiatives that are seeking to produce guidance on how to account for natural capital.