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**Sustainability & Energy Efficiency**

# **Impact Your Bottom Line**



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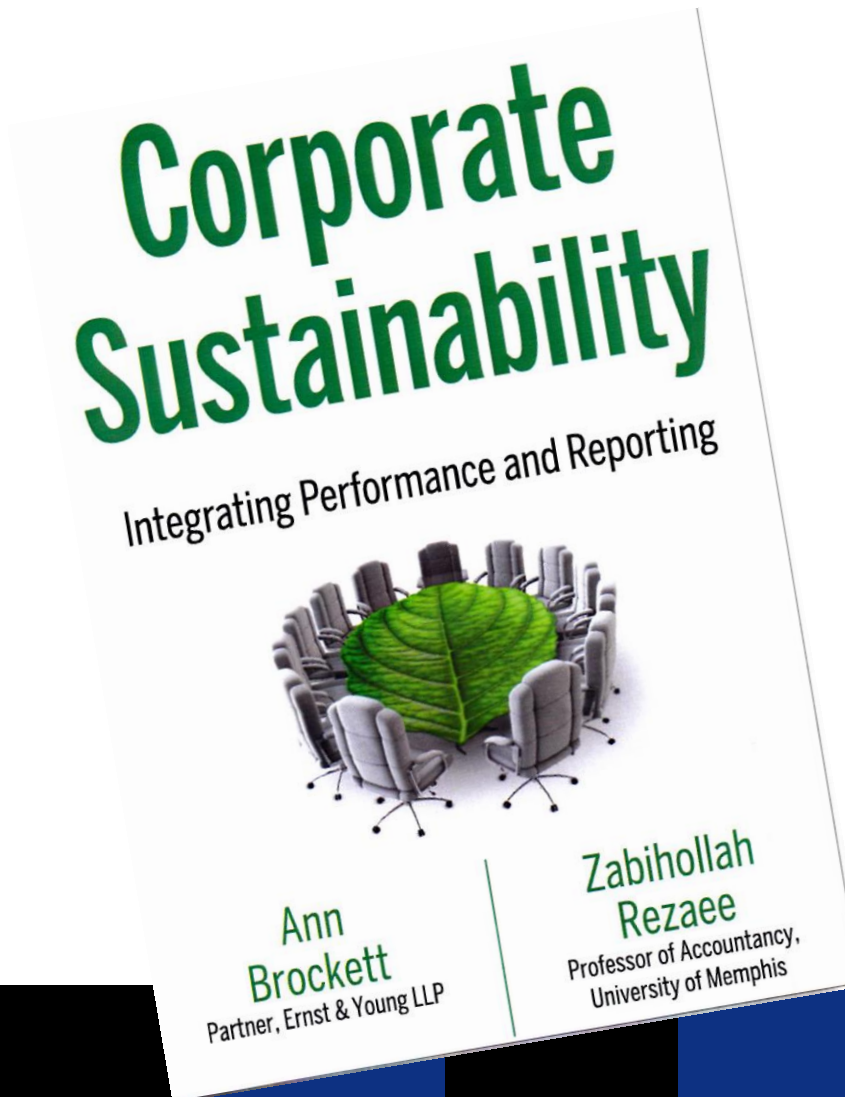
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# Corporate Sustainability:

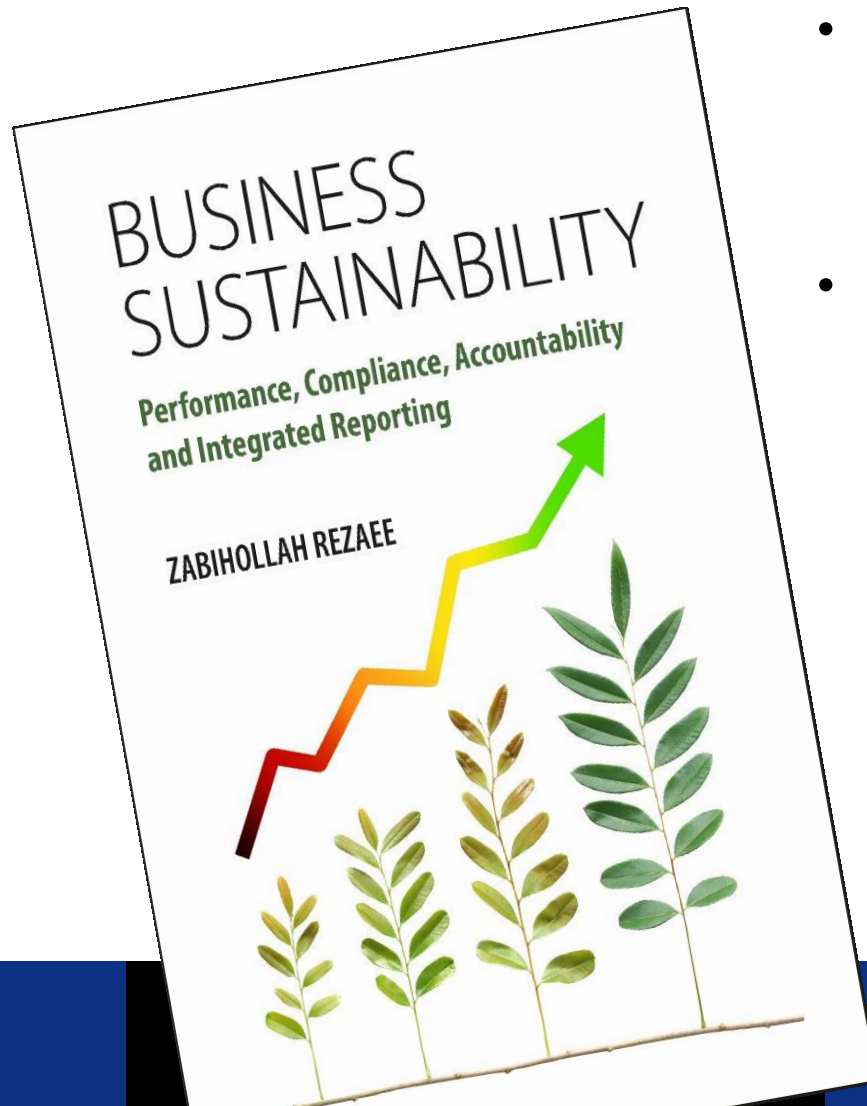
Winner of 2013 Axiom Gold Award



- How people, business, and resources collaborate in a business sustainability model.
- Focus on five sustainability dimensions: economic, governance, social, ethical and environmental (EGSEE).

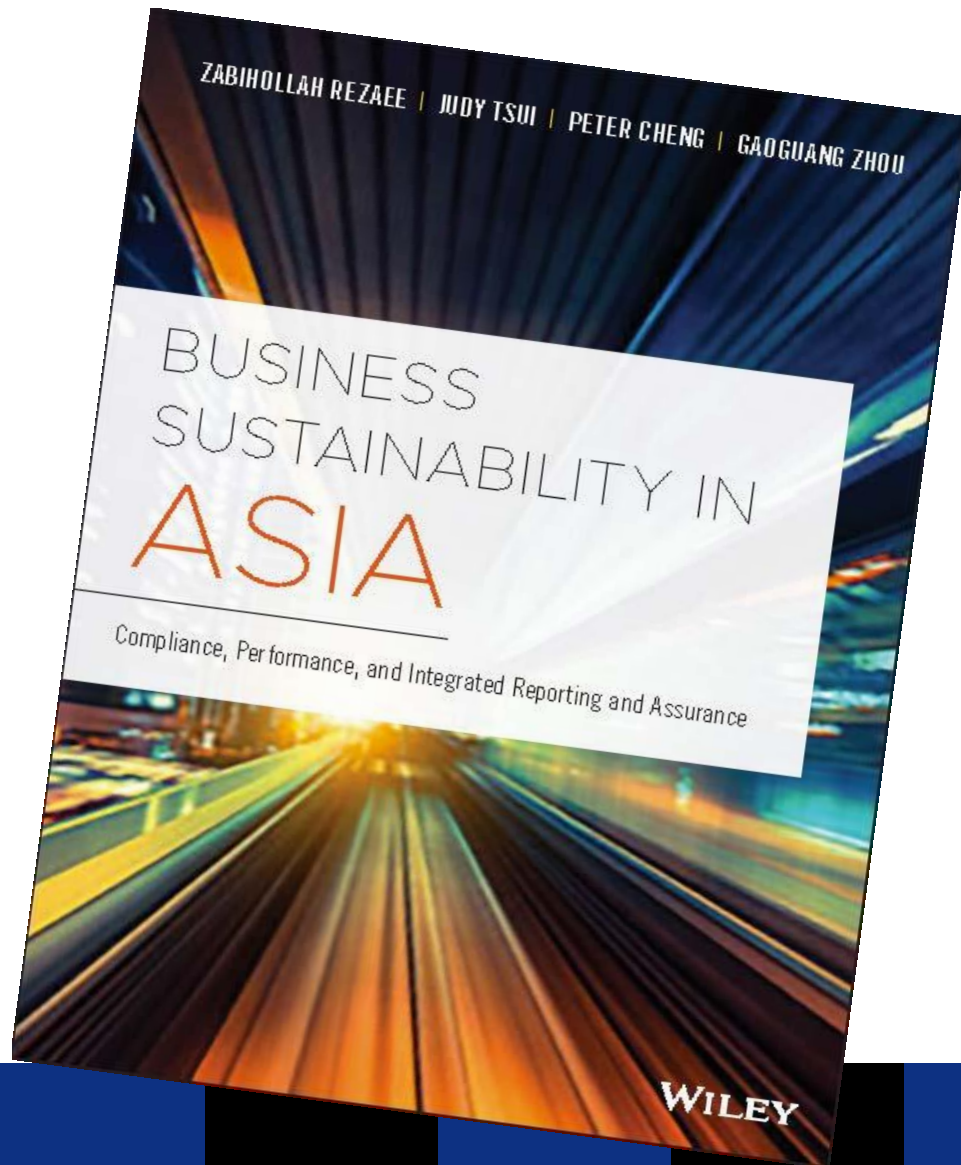
# Business Sustainability

Greenleaf, October 2015



- Focuses on a multiple bottom line (MBL) approach rather than the more basic triple-bottom line approach.
- Business sustainability is about creating the right balance of short and long-term continuous improvement of both financial economic sustainability performance (ESP) and non-financial environmental, social, and governance (ESG) sustainability performance.

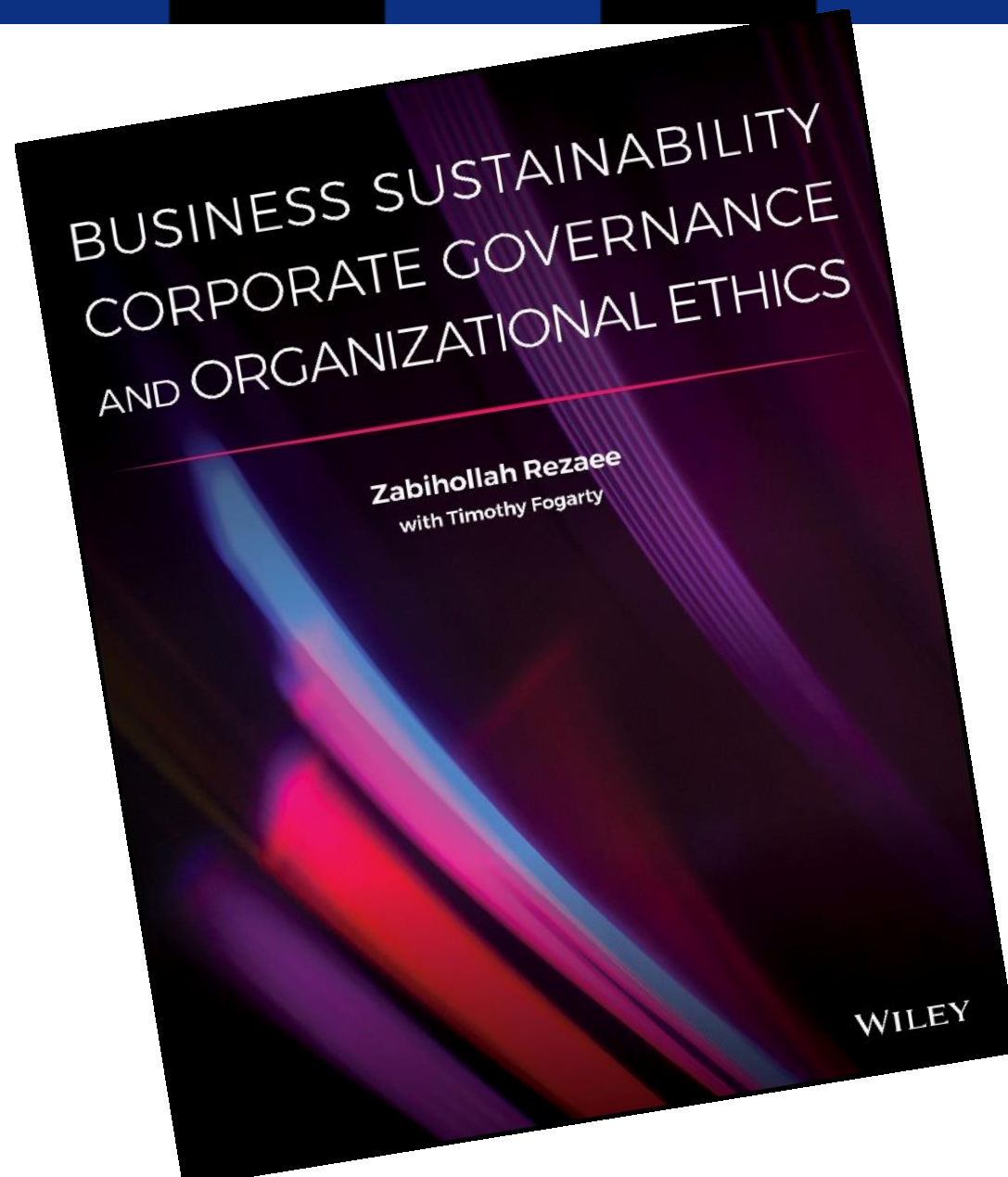
# Business Sustainability in Asia



Applies this paradigm to the economic powerhouses in Asia, from Japan and Mainland China to India and Vietnam focusing on:

- Global, regional, and local sustainability requirements and expectations
- Best practices for maximizing firm value by improving sustainability
- Balancing short-, medium-, and long-term sustainable performance sustainability.





## Business Textbook

- 30 chapters organized into four modules on Business Sustainability, Corporate Governance and Organizational Ethics.
- Addresses the latest revisions to the AACSB Accreditation Standards.

# To Start...

Q: Why are environmentalists bad at playing cards?

A: They like to avoid the flush.

Q: Why does a Time Magazine survey state only 85% of Americans think global warming is happening?

A: The other 15 percent work for the oil industry!

Q: How bad was the BP Gulf Oil Spill?

A: So bad they started drilling for water!

source: <http://www.jokes4us.com/miscellaneousjokes/greenjokes.html>



# Important Terms

- ESP - Economic Sustainability Performance
- ESG - Environmental, Social and Governance
- EGSEE - Economic, Governance, Social, Ethical and Environmental dimensions of sustainability performance
- CSR - Corporate Social Responsibility
- SDG - Sustainability Development Goals
- PRI - Principles for Responsible Investment
- GRI - Global Reporting Initiative

# Why

## **Demanded by investors**

More than 1,300 institutional investors worldwide, representing \$59 trillion in assets under management, have signed on to the U.N. Principles of Responsible Investing, which seek to integrate sustainability concerns into investment objectives. Asset managers like Blackrock, State Street, and Vanguard are now investing in sustainable and CSR companies.

## **Reported by companies**

Now more than 15,000 global public companies disclose their Economic Sustainability Performance (ESP) and Environmental, Social and Governance (ESG) sustainability Performance.

## **Mandated by regulators worldwide**

6,000 European Companies will be required to disclose ESG and diversity, in 2017. Hong Kong listed companies are now required to disclose both ESP and ESG (2016 and onwards).

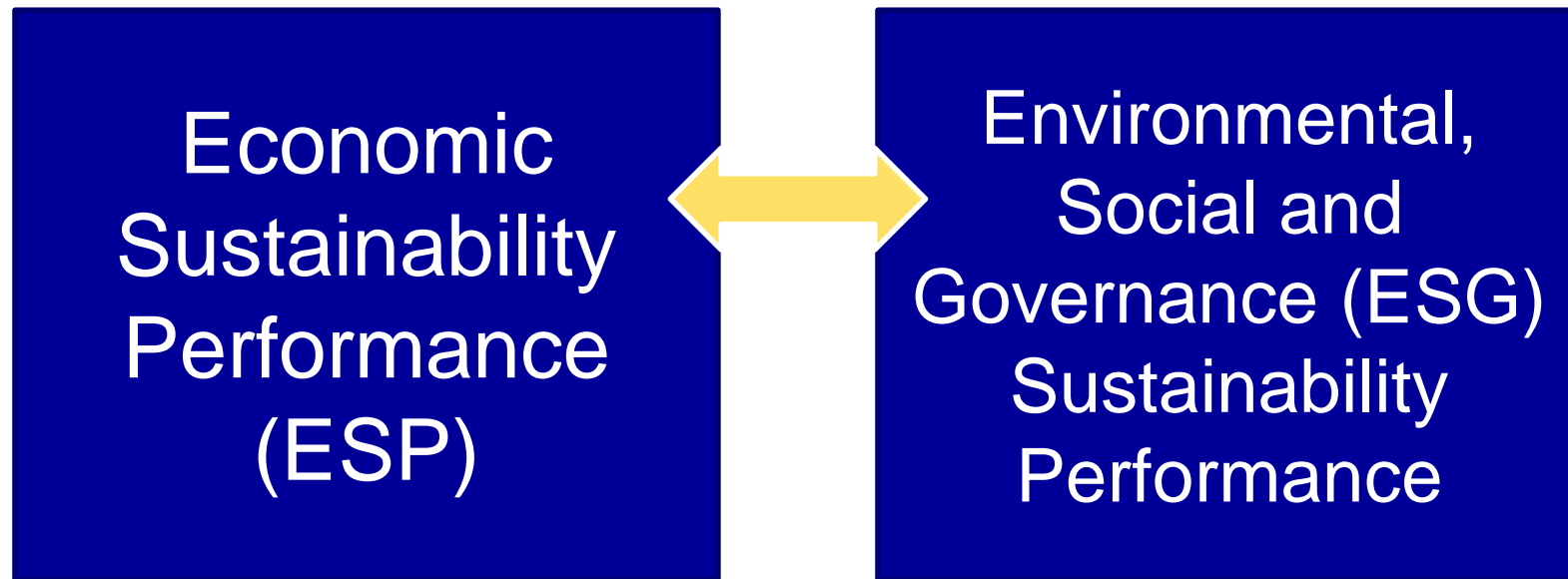
# Sustainability Framework

- Definition: a process of achieving all five EGSEE dimensions of sustainability performance.
- Create shared value for all stakeholders
- The main goal and objective function is to maximize firm value
- Time horizons
- Multidimensional nature of sustainability performance in all EGSEE areas
- Tensions among EGSEE

# Shared Value Creation

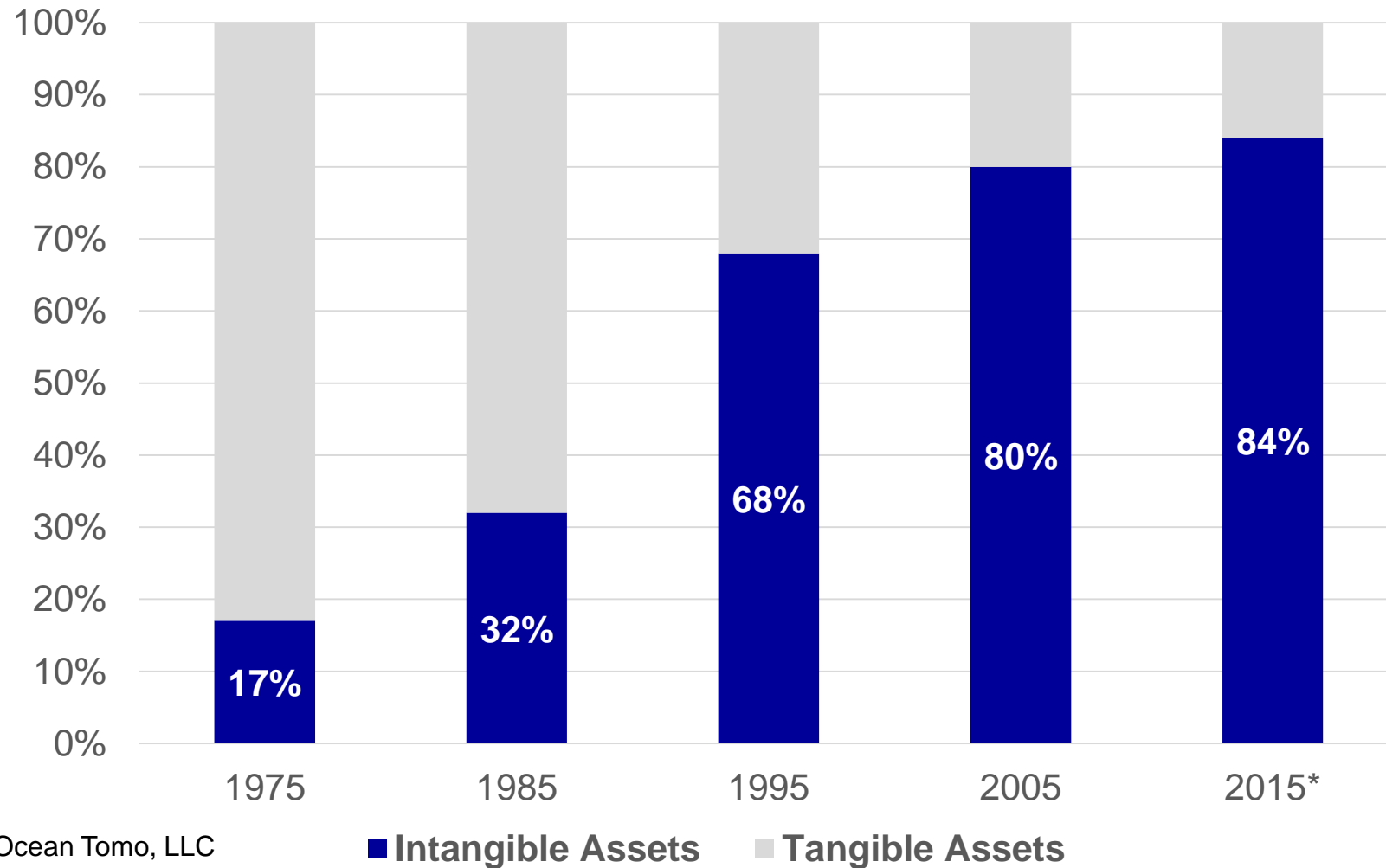


# Tension



# Components of S&P 500 Market Value

*"What is important is often not measured and what is measured is often not important"*



Source: Ocean Tomo, LLC

\*January 1, 2015



# How?



# Shareholder and Stakeholder Primacy

## Shareholder Primacy Model

Corporations generate returns for shareholders, and thus managerial decisions and actions should be focused on creating shareholder value.

## Stakeholder Primacy Model

Corporations create shared value for all stakeholders by securing financial returns for shareholder and making a positive contribution to society and the environment.

# Legislation

- ESG Disclosure Simplification Act (link between ESP and ESG)
- The Shareholder Protection Act (political spending)
- Corporate Human Rights Risk Assessment, Prevention, and Mitigation Act of 2019 (human rights risks or impacts on the operations)
- Climate Risk Disclosure Act of 2019 (financial and business risks associated with climate change)
- Accountable Capitalism Act of 2018 (Senator Warren, Corporations with revenue over \$1 billion would be required to obtain a federal corporate charter, 2/5 of the directors shall be elected by employees, and any political spending over \$10,000 has approval of both 75% of shareholders)

# Profit with Purpose

- Signed by 181 well-known, high-powered CEOs.
- Moves away from shareholder primacy—that corporations exist principally to serve shareholders”—
- Moves to stakeholder primacy: Americans deserve an economy that allows each person to succeed through hard work and creativity that will lead to a life of meaning and dignity.
- The free-market system is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all.
- Businesses play a vital role in the economy by creating jobs, fostering innovation and providing essential goods and services.

# Benefit Corporations

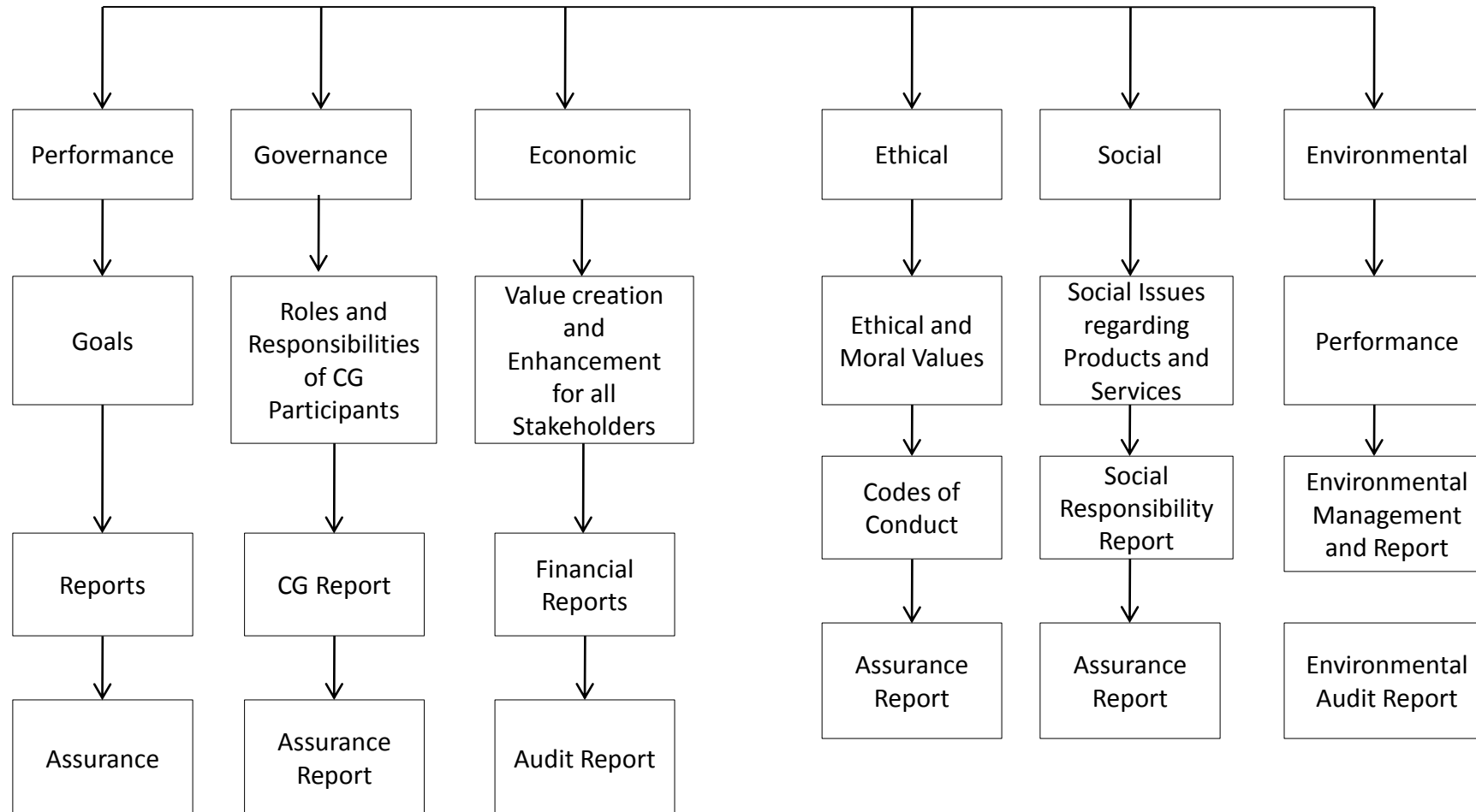
**Certified**



- Benefit Corporations (BCs) are intended to fill a gap between traditional corporations and non-profits by giving social entrepreneurs flexibility to achieve the dual objectives of doing well and doing good.
- The justification for BCs is that that existing law prevents boards of directors from considering the impact of corporate decisions on other stakeholders, the environment or society at large.
- Boards of directors of BCs are required to consider the impact of their decisions on specific corporate constituencies, including shareholders, employees, suppliers, the community, as well as on the local and global environment.



# Entity Performance



# Third-party Verification Organizations

- The Global Reporting Initiative (GRI)
- The International Integrated Reporting Council (IIRC)
- Sustainability Accounting Standards Board (SASB)
- Corporate Reporting Dialogue
- International Standards Organization (ISO)

# ISO 26000

## Triple Bottom Line

- Human impact... ➡ **People**
- Environmental impact... ➡ **Planet**
- Financial impact... ➡ **Profit**

**Sustainability balances these interests  
for long-term success.**

# **ISO 9000**

Quality Management

# **ISO 14000**

Environmental management  
system (EMS) guideline  
performance, reporting, and  
auditing.

# **ISO 37001**

Anti-bribery management systems

# **ISO 45001**

Occupational health and safety

# **ISO 50001**

Energy management

# **ISO 20121**

Sustainability Events. Addresses resources, society, and environment which can generate significant waste

# **ISO 31000**

Risk assessment and management



# Sustainability Research

More than 150 Published papers on Corporate Social Responsibility (CSR) and Sustainability:

- Effects on Financial Reporting
- Effects on Earnings quality
- Effects on Cost of capital
- Effects on Tax avoidance
- Effects on Stock Prices
- Effects on Financial Performance

Two articles published in the Journal of Accounting Literature provide synthesis of research on CSR and Sustainability.

- Rezaee, Z. 2016. Business Sustainability Research: A Theoretical and Integrated Perspective, **Journal of Accounting Literature**, 36 (2016): 48-64
- Huang, X. B., & Watson, L. (2015). Corporate social responsibility research in accounting. **Journal of Accounting Literature**, 34, 1-16.

# United Nations Sustainability Development Goals

Recent initiatives include the **Sustainability Development Goals** (SDGs) and the **Principles for Responsible Investment** (PRI). These encourage investors to use ESG factors in their investment decision.

- 17 SDGs involve areas such as climate change, economic inequality, innovation, sustainable production and consumption, energy efficiency and peace and justice.
- These SDGs are relevant to the three dimensions of sustainability development, economic development, and social and environmental development and can be linked to ESP and ESG sustainability performance.
- SDGs are supported by 169 targets and 232 indicators and aligned with GRI G4 performance indicators. Examples:
  - SDG 6 is a proxy for clean water and sanitation
  - A combination of SDGs 5, 10 and 16 focuses on human rights and equalities
  - SDG 13 is related to climate action
  - SDGs 14 and 15 are applicable to the nature of the life below the water and the life on land.

# Risk Management



# Sustainability Risk Assessment and Management

- Recognize sustainability's benefit in mitigating risk of noncompliance and prevention of a corporate collapse.
- Enterprise Risk Management (ERM) is vital in turning challenges into opportunities
- The move toward sustainability reporting underscores the importance of an adequate ERM in improving the effectiveness of all five EGSEE dimensions of sustainability performance
- ISO 31000: Risk Management–Principles and Guidelines in 2009, which provides principles and guidelines on risk management

# Mandatory Sustainability Disclosures

- Finland was the first country to adopt a mandatory sustainability reporting law in 1997.
- Other countries adopting similar laws include: Australia, Austria, Canada, Denmark, France, Germany, Hong Kong, Malaysia, Netherlands, Sweden, and the United Kingdom.
- European Commission has adopted a directive that would require more than 6,000 companies to disclose their environmental, social, governance, and diversity sustainability performance for the 2017 reporting year.

In these countries, companies would report:

- Environmental performance
- Social and employee-related matters
- Human rights policies
- Anti-corruption and bribery issues
- Diversity on the board of directors
- In addition to reporting on their own operations, organizations will need to include information about their supply chain

# Securities and Exchange Commission (SEC) and Sustainability Disclosures

The SEC concept release on disclosure reform was released on April 22, 2016, which includes 11 pages of discussion of sustainability disclosure, and poses the following questions:

- How sustainability disclosure fits within existing regulatory requirements (Regulation S-K)?
- What is the current cost of sustainability disclosure?
- What are the challenges with line-item requirements?
- How a market standard for sustainability disclosure can benefit companies?
- Should the focus be on ESG sustainability disclosures or just environmental and climate change matters?
- Work with the SASB in developing sustainability disclosure guidelines for many industries.



# Sustainability Accounting Standards Board (SASB)

- In October 2013, the SASB released its Sustainability Conceptual Framework consisting of objectives, key definitions and characteristics of sustainability accounting and disclosures, methodology for assessing the materiality of sustainability issues and structure and harmonization of sustainability accounting standards.
- The standards launch the process for mandatory filings to the Securities and Exchange Commission (SEC) such as the Form 10-K and 20-F through the first quarter of 2015.
- The SASB's objective is to create standards that enable peer-to-peer comparison between companies which can be useful for investment decisions and allocation of capital.
- SASB Standards are intended to enable business organizations in different industries to identify, measure, report and manage their sustainability factors of performance, risk and disclosure.
- These standards can be tailored to a particular company in a specific industry culture and operations that can have long-term material financial impacts.

# SASB

Identified 28 sustainability factors and issues organized into five groups:

1. Environment Issues
2. Social Capital
3. Human Capital
4. Business Model and Innovation
5. Leadership and Governance

# How to Promote Business Sustainability

- Spread the of concept of impact investing -- generating financial returns for investors while ensuring social and environmental impacts.
- Create of Profit-with-Purpose Business Organizations.
- Integrate sustainability into corporate culture, business model, strategic planning, decisions, actions and supply chain management.
- Adopt the “tone at the top” by promoting sustainability by the board of directors (sustainability board committee, a director with sustainability focus and experience).
- Have executives commit to advancing sustainability (chief sustainability officer), linking executive compensation to sustainability performance.
- Make corporate reporting on financial ESP and non-financial ESG sustainability performance (Europe, Asia) mandatory.
- Implement mandatory sustainability regulatory requirements or market mechanisms.
- Establish Sustainability Accounting Standards (FASB, IASB).
- Embrace and develop Sustainability Assurance Standards (AICPA, PCAOB, IAASB).

# Best Practices

1. Make long-term Sustainability Investment Strategies:  
Focus on long-term and sustainable investments rather than short-term market movements.
2. Set tone at the top by engaging in sustainability initiatives:
  - First, socially responsible investors place in proxy proposals a need for the election of at least one director with sustainability interests and skills.
  - Second, creation of a board sustainability committee consisting directors with adequate sustainability expertise.
  - Third, the entire board of directors is being required to engage in sustainability issues and initiatives, being held accountable for achieving sustainability performance and to provide the needed sustainability leadership.
3. Make executive commitments for promoting sustainability performance:
  - First, active oversight function of the board of directors demanding sustainability performance from executives.
  - Second, include a sustainability performance target clause in executive compensation contract.
  - Third, the labor market to reward sustainability executive leadership and punish managerial short-termism.
4. Make sustainability investment initiatives and innovations.
5. Integrate sustainability performance reporting and assurance into corporate reporting.

# Role of the chief sustainability officer (CSO)

- There is an urgent need for the establishment of the position of CSO in C-suite executives of business organizations
- Have profit-oriented mentality and practice. Seek profit from increasingly difficult avenues of growth.
- Implement the concept of profit-with-purpose by focusing on sourcing resources more wisely, managing waste and CO2 emissions responsibly, acting as a good citizen, celebrating diversity among workers.
- Find ways to reach out to new stakeholders or increase the participation of and communication with existing ones.
- Demonstrate flexibility in new endeavors that seek to increase the company's future growth aspects.
- Communicate effectively to other officers and employees about best practices and enforce compliance with the same.
- Learn to leverage company strengths, such as technology, manpower, expertise, resources, and market positions.
- Tell sustainability stories.

# 2019 and onwards

## Top 10 Sustainability Developments

1. Institutional investors are insisting on better sustainability (29% voted in favor of ESG).
2. Investors are focusing on evidence of financial materiality and link between financial and ESG performance.
3. SASB publishes its codified ESG standards for 80 industries in U.S.
4. Standard-setters are focusing on complementary frameworks and better alignment (GRI, IIRC, SASB).
5. Corporate gatekeepers including lawyers are devoting more attention to ESG disclosure.
6. Disclosure risks are assessed (COSO and WBCSD) with a focus on ESG – related ERM.
7. More accountants are working in this area (FASB, IASB, AICPA, PCAOB, IAASB).
8. Legislators are now expressing interest in better disclosure (Europe and Asia)
9. The rest of the world takes steps towards better sustainability disclosure.
10. Concerns about climate change and cyber security greatly increased.

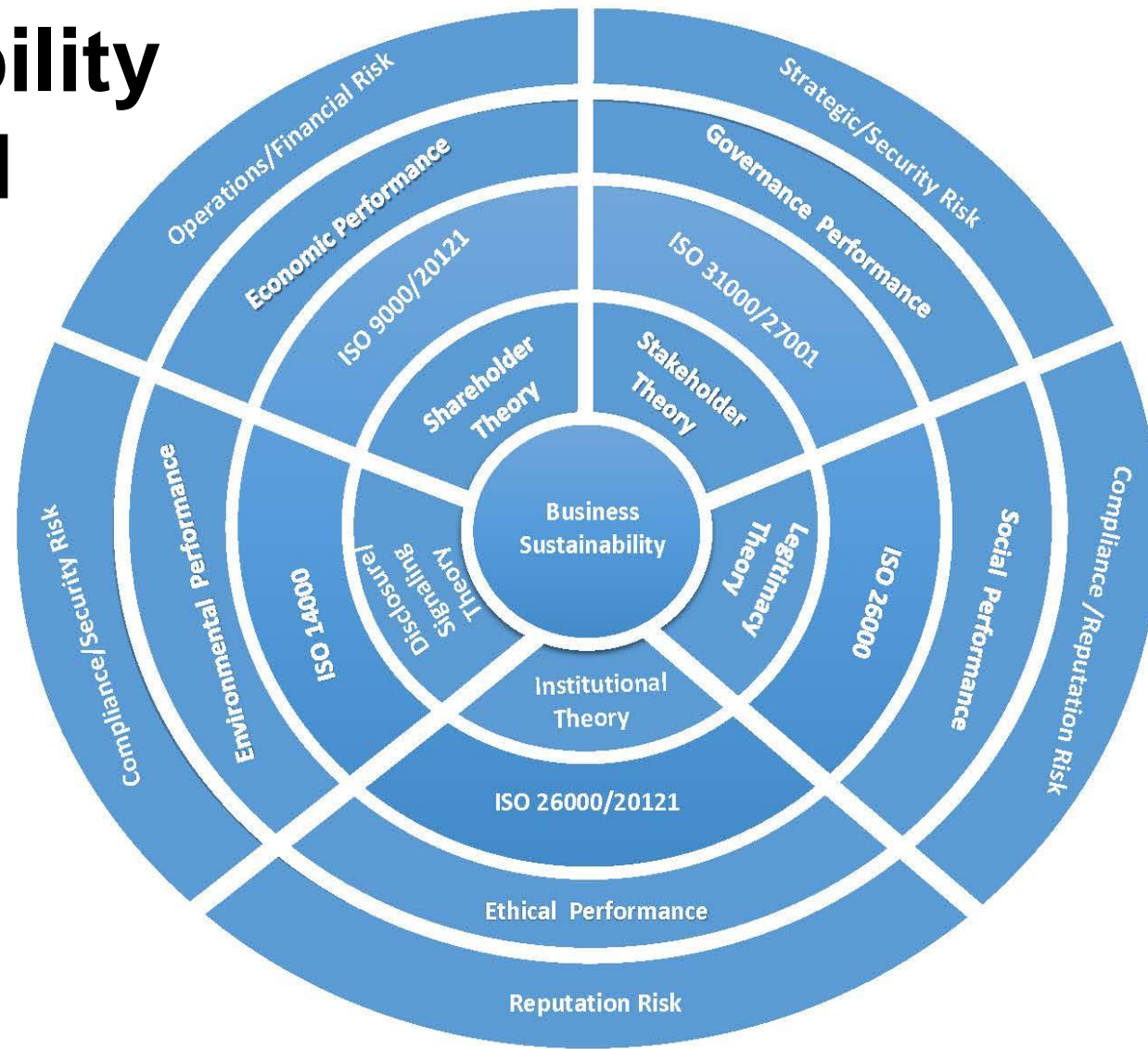
# Assessing Climate Change Performance

Climate key performance indicators (KPIs) are:

- **Greenhouse Gas Emissions (GHG).** An emissions assessment should evaluate the company's emissions compared to peers, industry or regulatory requirements.
- **Industry Climate Risk.** Some companies are more vulnerable to the future implications of climate change given the nature of their businesses, industry or the location of their operations. Thus, be aware of your industry best practices
- **Climate Risk Outlook.** Forward-looking KPIs of climate risk performance and disclosure include the company's corporate policies and strategy on climate change and climate change resilience in general.

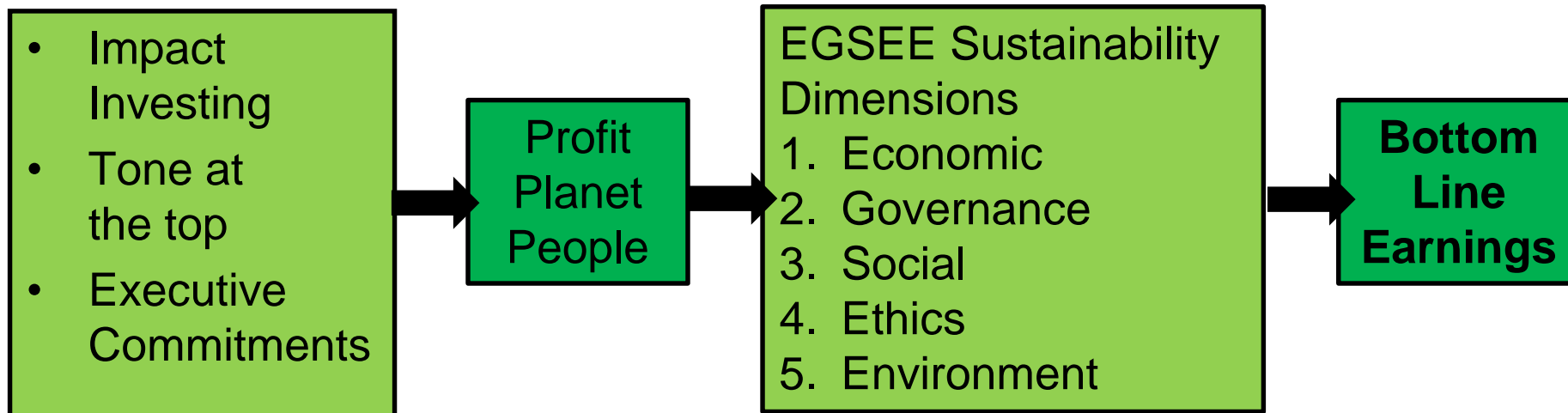


# Sustainability Integrated Approach

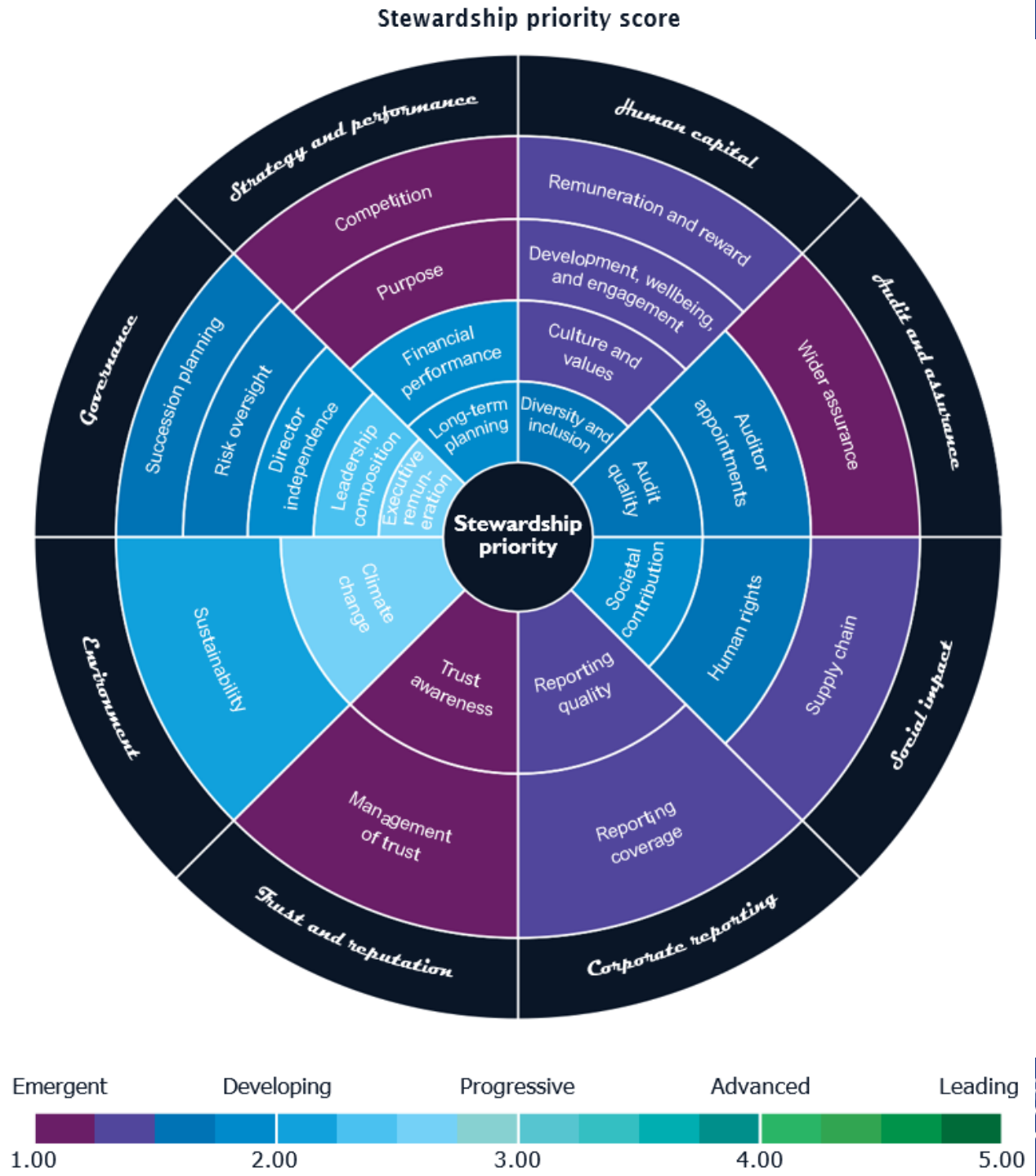




# Bottom-Line Earnings



# Sustainability Framework



# Tips for CEOs and CFOs

## to Adopt Integrated Reporting

1. **Pay attention to investors demands**  
for and interest in (institutional investors) ESG information as they increasingly holding companies accountable for ESG issues.
2. **Integrate regulatory reporting (SEC filing)**  
with voluntary ESG reporting that reflects shared value creation for all stakeholders.
3. **Get the support of all corporate gatekeepers**  
from directors to executive, internal and external auditors and legal counsel (support from top down).
4. **Tell the company's story**  
to all stakeholders about its creation of long-term value for shareholders (financial impacts) as well as social and environmental impacts.
5. **Identify the key performance indicators**  
(financial and non-financial ESG), how they are measured and their material impacts in creating long-term value.
6. **Be innovative and do not be over-cautious**  
about revealing confidential information or exposure to legal liability in disclosing ESG information.
7. **Realize that many ESG initiatives**  
(climate change, R&D, customer satisfaction) have short-term costs with a potential for long-term return by reducing regulatory risk, reducing discount rate (CoC), increasing future cash flows and thus create long-term value for all stakeholders including shareholders.