Sustainability Perspectives for Accounting and Finance Professionals

Duquesne University
6th Annual Accounting CPE Conference
November 16, 2017

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What is sustainability?
“…to balance the imperative for long-term viability—of the company and the world it relies on to create economic value—with the demands for short-term competitiveness and profitability.”

—Michael P. Krzus. “Integrated reporting: if not now, when?”
Historical perspective
Reflections on the economic crisis

• The financial system meltdown is an extreme example of short-term market failure.

• **Lack of underlying information** on certain types of transactions was a major cause of this collapse.

• **Short-term earnings are an especially unreliable guide** in the current economic environment and so investors are looking for other measures of performance.

• The global climate crisis is an example of long-term market failure.

• The result is **increasing demands for information on ESG issues.**

Background
Sustainability and the Accounting Profession

• 1994—AICPA, “Improving Business Reporting—A customer focus” (The Jenkins Committee)

• 1997—PwC, “Pursuing Value: The emerging art of reporting on the future”


• 1999—Professor Cindy Williams, “The Securities and Exchange Commission and corporate social transparency”

• 1999—PwC, ValueReporting. “How can you value what you cannot see?”
Sustainability and the Accounting Profession

• 2001—“Strengthening Financial Markets: Do investors have the information they need? (The Garten Report)

• 2001—ICEAW, “Sustainability and Corporate Reputation: Key points from a Centre for Business Performance roundtable.”

• 2001—PwC. *The ValueReporting Revolution: Moving beyond the earnings game.*

• 2002—KPMG, “New Directions in Business Reporting: Performance reporting, communications, and assurance.”

• 2002—AICPA, Special Committee on Enhanced Business Reporting.
Context
Frameworks and standards
Data providers
Investors
“...the times they are a-changin.”

“The future was predictable, but hardly anyone predicted it.”

–Attributed to Alan Kay, former researcher at Xerox PARC facility and Apple fellow
Accounting and finance professionals
“The financial community will increasingly acknowledge that issues previously considered nonfinancial have clear potential to have a material impact on financial performance in both the short- and long-term.”

–José Luis Blasco, KMPG Global Head of Sustainability
“Non-Financial is the New Financial. ”Responsible Investor, October 17, 2017
“The merging of financial and nonfinancial reporting will accelerate quickly in the next few years and it is the finance teams that will be expected to deliver the disclosures.”

–José Luis Blasco, KMPG Global Head of Sustainability

“Non-Financial is the New Financial. ”Responsible Investor, October 17, 2017
People
$30 trillion

Wealth transfer from baby boomers to millennials in the coming decades

36%

Of baby boomers believe investments are a way to express values

(vs. 67% of millennials)

66% of wealth will be controlled by women in the U.S. in the next 10 years.

MSCI. “Exploring the ESG Quality of Fund Holdings,” 2016.
76%

Of women express a high level of interest in ESG performance

Markets
Components of S&P 500 market value value

Investors
Data
Data providers

- Bloomberg
- MSCI ESG Research
- GLASS LEWIS
- vigeo eiris
- Corporate Responsibility Prime
- oekom research
- ROBECOSAM Sustainability Investing
- THOMSON REUTERS
- SUSTAINALYTICS
- Insight360 by TruValue Labs
Short-termism
Global competition
- Earnings expectations
- Faster information flows

The cycle of short-termism

Short-term investor and market horizons

Short-term goals & metrics

Short-term incentives & decisions

Short-term performance pressure is rising

2016 survey of executives and board members

87% feel pressure to deliver strong financial performance within two years or less

65% say short-term pressure has increased over the past five years

55% would sacrifice value to hit quarterly targets

Source of short-term pressure

40% of executives and board members point to themselves as the cause of short-term pressure

“…creating shareholder value is not the same as maximizing short-term profits.”

Long-term capitalism
Founders of FCLT Global
SII CEO Investor Forum

- Investors with $25 trillion assets under management
- BD, Citi, Humana, IBM, Nielsen, PGE, Welltower
“Intrinsic investors overwhelmingly favor decisions that lead to long-term value creation even at the expense of short-term earnings shortfalls.”

Reporting and long-term strategy
Reporting matters

- Influences decisions and actions of management
- An essential element of governance
- Influences decisions and actions of shareowners and other stakeholders
- Affects resource allocation in society
- Critical for investor confidence
Frameworks and standards
Rising to the challenge of short-termism

Dominic Barton, Jonathan Bailey, and Joshua Zoffer
10 elements of a long-term strategy

1. Clear statement of purpose, mission, and vision
2. How the company’s business model creates value
3. Management’s view of the market
4. Sources of competitive advantage
5. Strategic goals
10 elements of a long-term strategy

6. Detailed execution roadmap
7. Medium- and long-term metrics and targets
8. Capital and non-capital investments
9. Overview of risks
10. Executive and director compensation
Materiality

Governance
Why should you care?
“Long-term firms exhibit stronger fundamentals and performance.”

“From 2001-2014, the revenue of long-term firms cumulatively grew on average 47% more than the revenue of other firms, and with less volatility.”

“Long-term firms invested more than other firms from 2001-2014. …cumulatively, by 2014, long-term companies on average spent almost 50% more on R&D than other companies.”

“Long-term companies exhibit stronger financial performance over time. On average, their market capitalization grew $7 billion more than that of other firms between 2001 and 2014.”

“Long-term firms added nearly 12,000 more jobs on average than other firms from 2001-2015.”

Wait, what about litigation risk?
“...create value for the collective of all shareholders, present and future.”

Thank you