



SUSTAINABILITY FOR ACCOUNTANTS

FEATURING HERB RUBENSTEIN, JD, MPA, DSS





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Learning Objectives

- Learn about the Sustainability Accounting Standards Board
- Identify Ways to Improve the Sustainability Practices of the Companies and Organizations You Serve
- Learn About Business Opportunities for CPAs and Finance Professionals in the Field of Sustainability
- Consider How Sustainability Now Impacts Ethics
- Learn Sustainability is now becoming "material"

Sustainability for Accountants:

Herb Rubenstein, JD, MPA, DSS

Overview

- ▶ Sustainability is now mainstream - Sustainability Accounting Standards Board
<http://www.sasb.org/standards/using-sasb-standards/>
- ▶ Section 1 is a discussion of the key principles regarding sustainability
- ▶ Section 2 is how companies and nonprofits become more sustainable
- ▶ Section 3 is how organizations benefit today from being more sustainable

Key Principles of Sustainability

- ▶ Optimal use of physical, financial, and human resources to achieve the desired good
- ▶ No longer a political football as it is mainstream and producing profits
- ▶ Huge reputation builder for companies
- ▶ Walmart and other majors requiring their supply chain to comply
- ▶ Definition focuses on the “long run”

New Books and Stakeholders

- ▶ *Good Company: Business Success in the Worthiness Era* by McBassi and her colleagues
- ▶ *The Sustainable Enterprise Fieldbook*
- ▶ International Society of Sustainability Professionals
- ▶ Sustainability is now both quantifiable and financially measurable, reportable, can do analytics on the data
- ▶ Social License to Operate - Broad and growing literature on this topic - Estee Lauder, Burberry

Key Issue for Accountants

- ▶ Making the business case for sustainability in dollars and cents
- ▶ Appraisers and the Appraisal Institute now taking into account sustainability features in valuing buildings - huge - drives down the cost of borrowing and therefore, cost of doing business
- ▶ Merger and Acquisition consultants taking sustainability factors into valuing companies
- ▶ Analyzing benefits is challenging; analyzing costs and revenues are easier, but not a trivial exercise

Sustainability Publications

- ▶ From the Journal of Environmental Sustainability from 2012
<https://pdfs.semanticscholar.org/77a0/1ea560aa661ef0b21c1cf039fec30da65c9.pdf>
- ▶ Corporate Social Responsibility Reporting
- ▶ Social License to Operate - Broad and growing literature on this topic

Sustainability = Applied Ethics

- ▶ Excess pollution, financial irregularities, violations of regulations are now considered ethical violations by many
- ▶ *Sustainability Accounting, Management and Policy Journal*
<https://www.emeraldgrouppublishing.com/sampj.htm>
- ▶ *Strategic Sustainability Accounting Journal*

Mission of SASB

- ▶ Inform and educate accountants and clients
- ▶ Develop and disseminate sustainability accounting standards
- ▶ Assist corporations “disclose material, decision-useful New Credential - Fundamentals of Sustainability Accounting information to investors”
- ▶ New Credential - Fundamentals of Sustainability Accounting

Examples of Sustainability Metrics

- ▶ Environmental metrics for company and the entire supply chain
- ▶ Human capital metrics - Amount of training per employee, total cost per employee, employee engagement scores, turnover rates (talent retention), benchmarking data compared to competitors for employee survey data - See ISO section below...
- ▶ Transparency metrics such as the ratio of CEO pay to typical worker pay

Polling Question Number One

▶ See question

Sustainability and Regulations

- ▶ Tighter regulatory environment is contributing to companies being unethical as they falsely “attempt” to show they are complying with new regulations
- ▶ Classic example, Volkswagen (VW), with its defeat software regarding emissions levels (Also Audi, Fiat/Chrysler)
- ▶ Key role for accountants -

Additional Regulations/Ethics

- ▶ Companies cheating on miles per gallon violating EPA reporting requirements
- ▶ Penalties for willful violations soaring over the past five years and expected to continue to climb globally and in the US
- ▶ Privacy violations skyrocketing by Apple, Google, others
- ▶ Mislabeling of fossil fuel products being shipped by rail in the US - big accidents stopped

Section 2: How Companies and Nonprofits (Including Universities) are Becoming More Sustainable

- ▶ Great business opportunities for companies and fundraising opportunities for nonprofits and universities created by sustainability leaders
- ▶ Transparency and Reporting
- ▶ VP for Sustainability/Risk/Env. Compliance
- ▶ Shareholders are demanding it
- ▶ Customers are demanding it
- ▶ Students and parents are demanding it

Key Elements of A Sustainability Program - Slide 1 of 2

- ▶ Measureable results in terms of:
- ▶ Reducing environmental harm
- ▶ Improving customer satisfaction/loyalty
- ▶ Improve employee satisfaction/reduces turnover
- ▶ Improving Brand - Patagonia

Key Elements of A Sustainability Program (Con't)

- ▶ Improving the reputation of the company, educational institution, nonprofit
- ▶ Improving the culture of the entity
- ▶ Improving the investment of the entity in public goods and communities where they operate - reputation building - relationship building

A Source of Competitive Advantage

- ▶ Clear research that consumers will pay more money for goods that are sustainably sources with limited environmental harm
- ▶ Internet has promoted transparency
- ▶ Drones will uncover unsustainable practices that used to be kept private
- ▶ Employees now have more options to speak via the internet

Polling Question Number Two

▶ See question

Sustainability and Energy Efficiency

- ▶ Siemens in 2012 - not in the “energy efficiency” business because we cannot measure it”
- ▶ 2020 - Siemens “Smart Buildings,” “Energy Efficient Motors,” “Energy Efficient Programs” - Times change
- ▶ “EE” produces measurable savings, ROI, in the long run
- ▶ Global movement could create carbon tax on US exports
- ▶ Builds employee morale
- ▶ Helps create better strategic alliances
- ▶ Concerns of a carbon tax as states may take the lead on this like CA and WA and already in Canada

Sustainability and the Internet of Things

- ▶ Nest - Honeywell had this technology years ago
- ▶ Machines reporting wear or damage causing poor efficiency (GE)
- ▶ Reporting in real time - buildings in UK
- ▶ What you measure you can manage
- ▶ Global Reporting Initiative - CSR as part of your annual report

Sustainability, Water and Human Rights

- ▶ Sustainable agriculture/golf lowers water use
- ▶ Oil and gas operations using less water and recycling more water
- ▶ Social justice and human rights now considered sustainability issues - New area
- ▶ Religious institutions getting more involved
- ▶ Climate change promotes sustainability

Polling Question Number Three

▶ See question

Sustainability and Energy/Environment

- ▶ Companies being held accountable for reducing energy use, carbon footprint, resource use
- ▶ Environmental concerns are at the heart of sustainability, but financial sustainability is also an essential component
- ▶ Company says: We reduced our carbon footprint by 27% - role for accountants - What about supply chain?

Sustainability and Finance

- ▶ Longer term outlook vs. short term thinking
- ▶ ExxonMobil reducing the economic value of its oil and gas reserves
- ▶ Concept of unburnable carbon leading to stranded assets - Kemper? Vogtle?
- ▶ Nuclear energy seen as environmentally sound but not financially sustainable in most of the world

Benefits From Being More Sustainable

- ▶ McBassi's research shows more sustainable companies within a sector have higher stock prices
- ▶ Valuations, and especially goodwill, now taking into account sustainability practices
- ▶ Appraisal Institute now taking into account value of solar panels on houses
- ▶ How to build reputation - write and speak about "sustainability accounting"

Sustainability and Transportation

- ▶ Focus on the benefits of:
 - ▶ Driverless vehicles
 - ▶ Electric vehicles
 - ▶ Hydrogen powered vehicles
 - ▶ Increasing miles per gallon
 - ▶ Increased public transportation
 - ▶ Designing sustainable, walkable communities
 - ▶ Telecommuting, Webex, GoTo, Zoom, etc.

Nonprofits Raise Awareness and Funds

- ▶ Many successful fundraising campaigns based on sustainability practices
- ▶ National Geographic an environmental education leader
- ▶ United Nations Sustainable Development Goals help governments form policy
- ▶ Principles of sustainability = growth for nonprofits

Polling Question Number Four

▶ See question

30

Sustainability Benefits to Companies

- ▶ Siemens, BMW, Kaiser Permanente, ProLogis, and many other companies “greening” their energy use and production
- ▶ Utilities and investors are taking advantage of wind production tax credits
- ▶ Tesla is taking advantage of electric car tax credits offered around the world
- ▶ US boom, offshore wind, 40 years post UK

Because of The Sustainability Movement

- ▶ Burberry's cannot burn \$38m of clothing each year to prop up prices
- ▶ Yes, it was on their profit and loss statement, reported as the accountants had to account for all written off inventory
- ▶ Investors when they learned about it threatened to flee, sue
- ▶ Entire Fashion Industry Got the Sustainability Bug, Set targets
- ▶ BP set a target of being carbon neutral by 2050
- ▶ Eating right - George Mason University delivers breakfast by robots to their students' dorm rooms - more people eating breakfast, improved eating habits - Better value for what they pay on meal plan - Starship Technologies/Sodexo providers

Sustainability Opportunities

- ▶ Integrate sustainability into every strategic plan and measure against it carefully
- ▶ Each company needs to create its own sustainability identity and efforts
- ▶ Consultants need to be aware of what their clients' competitors are doing in the area of sustainability
- ▶ Globalization will promote sustainability

Conclusion

- ▶ Lead or follow your competitors in the sustainability arena - Fast Follower
- ▶ Customers will eventually know how your company stacks up to the competition in terms of being sustainable - your competition, if ahead will tell them
- ▶ Compete against your prior years' results
- ▶ Promote your sustainability efforts - facts
- ▶ Improve your reputation and bottom line

Conclusion

- ▶ Use competition - Keeping Down With the Jones's
- ▶ Consumers to Prosumers
- ▶ Monopolies are no longer monopolies
- ▶ Apps will report your carbon use at the time of purchase by bar scanner
- ▶ Great Business Opportunity

Conclusion

- ▶ What's in it for the financial services sector and accountants
- ▶ Key financial measurement role
- ▶ Key audit functions
- ▶ Key process evaluations
- ▶ Key financial reporting functions
- ▶ Consulting, Advising



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