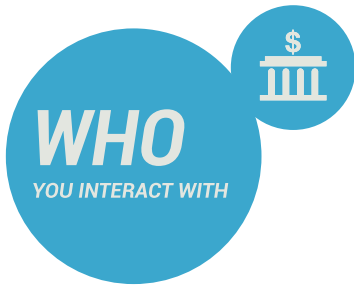


The Transformational Company Guide

Quality #17 - Finance Community Engagement

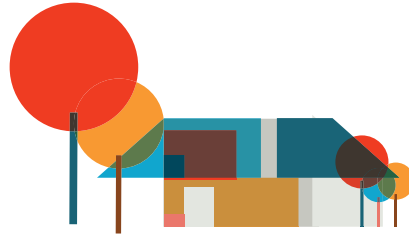


For more information on the new business leadership standard visit
www.cbsr.ca/transformationalcompany



Transformational Company Quality

#17: FINANCE COMMUNITY ENGAGEMENT



Transformational companies engage the financial community, including investor shareholders, bankers, insurers, bond-rating agencies and accountants on the opportunities and benefits of sustainable business models.

WHAT IS IT?

Currently, the financial and accounting system that underpins our economy focuses on short-term financial metrics and does not adequately reflect the dependency of our economic success on the health and stability of our communities and the natural environment. The financial community is beginning to recognize that long-term value relies on an understanding of the interdependency between financial, social, natural and other factors. However, while awareness of these issues is growing, many mainstream investor practices go unaltered.

About 30 percent (\$21 trillion; \$1 trillion in Canada – expressed in USD) of [globally invested assets](#) (specifically Europe, the United States, Canada, Asia and Australia) align with environmental, social and governance (ESG) considerations. While this shows progress, it still represents a minority investment perspective. To accelerate this shift, transformational companies proactively engage their financial stakeholders, including investors, bankers, insurers, bond-rating agencies and accountants, on the benefits of pursuing sustainable business models. Rather than accept a narrow, short-term focus, transformational companies drive change within the financial sector, bringing forward evidence that sustainability and shareholder value go hand in hand and can attract long-term investors. Some even create financial offerings, such as green bonds, to draw sustainability-minded investors and capital to the company.

Leading companies demonstrate how the effective management of all resources or capitals on which they rely or have an impact links to value creation over time. (The International Integrated Reporting <IR> Framework, for example, refers to six forms of capital, namely financial, manufactured, intellectual, human, social and relationship, and natural.) To this end, leading companies adopt accounting or reporting models, such as [Environmental Profit and Loss Statements](#), [Natural and Social Capital Accounting](#) or [Integrated Reporting <IR>](#) to help identify and manage risks, inform corporate strategy and communicate the long-term viability of their sustainable business models to the financial community.

Transformational companies lead and join efforts to engage the investment chain to shift perceptions, explore disconnects and pursue initiatives in order to increase the flow of capital towards sustainable companies, including their own. They pursue collective measures to catalyse action by the finance, accounting and investor community to support a move towards resilient business models and a sustainable economy. They sponsor efforts that will create an enabling environment to accelerate the transition to better informed and sustainable capital markets.

I think the best step transformational companies can take is to explicitly abandon shareholder primacy – maximizing shareholder return – as their primary purpose. In its place they should express the corporate purpose in terms of providing a rate of return to all its stakeholders – including future generations.

Bob Walker, Vice President Ethical Funds & ESG Services, NEI Investments

Note: “Accounting for Sustainability” resources were used to develop this finance community guidance. See “Where can I go for more information” section below for details.

WHY IS IT IMPORTANT?

Investor pressure for short-term financial results often discourages businesses from building and investing in longer-term value creation. By focusing on short-term profit maximization businesses tend to overlook important medium- to long-term risks and opportunities that will affect both business and societal value in the coming decades. They are also more inclined to bypass business opportunities otherwise available through harnessing emerging trends. By proactively engaging the financial community on the benefits of integrated thinking and sustainable business models, transformational companies foster a paradigm shift toward resilient business models necessary to create a sustainability transition. [Research](#) shows that companies that focus on long-term strategy are more likely to attract investors with similar time horizons, whereas companies that focus on short-term strategies and communications tend to have a short-term oriented investor base, and tend to have a higher stock price volatility.

By actively engaging with the investment community in this way, transformational companies may benefit from an improved reputation and brand and enhanced employee morale and pride. Going forward the following benefits may also become more likely:

- Improved access to, and more affordable, capital
- Preferred rates and premiums from bankers and insurers
- Fewer shareholder resolutions seeking ESG disclosures and performance

HOW TO DO IT?

Don’t wait for your investors to ask the right “sustainability” questions. Instead, explain to current and potential investors how material sustainability matters can drive or diminish value over time. Demonstrate the connections to strategy, risk management, business opportunities and long-term value creation and show how these connections offer competitive differentiation, pre-empt regulation, enhance productivity and grow the business. Consider focusing on your major long-term shareholders by engaging them in a dialogue on the benefits of your long-term sustainability approach and communicating your strategies for longer-term growth and related metrics.

Provide context through qualitative and quantitative information on emerging trends and their connections to, for example, revenue growth, cost reduction and risk management. Break down the silos of traditional reporting to illustrate how the Board and management think holistically about value for the organization and for others. Don’t present sustainability as a standalone issue but include



sustainability information into mainstream investor communications showing how it is an integrated part of corporate strategy.

Consider pursuing the following ideas:

- Where human, natural and other capitals have a material effect on strategy and value creation, include this information in the annual or integrated report, annual meetings, press releases, investor relations section of the website, investor road shows and analyst calls
- Build systems and metrics that track the financial benefits (and natural and social capital value) of sustainability initiatives and investments and, where material to value creation, include this information in your annual or integrated report; where available follow international measurement protocols (e.g. [WRI GHG protocol](#), [Global Reporting Initiative](#), etc.) so investors can compare investments and make informed decisions
- Promote the development and uptake of accounting and reporting frameworks that support stable capital markets and sustainability
- Reduce or eliminate the practice of issuing quarterly financial targets and earnings guidance and instead release long-term targets and guidance (or do both as a transitional measure)
- Work to increase the proportion of longer-term shareholders on the share register
- Include sustainability considerations in your corporate pension fund, if you have one
- Offer a green or social bond to attract sustainability oriented investors to your company

WHO IS DOING IT?

Unilever issues first green bond in its sector – press release:

London/Rotterdam, March 19th 2014.

Unilever announced today the issuance of the first ever green sustainability bond. The £250,000,000 2% per cent Fixed Rate Notes due 19 December 2018 are issued by Unilever PLC and guaranteed by Unilever N.V. and Unilever United States, Inc.

Unilever's green sustainability bond is the first green bond in the sterling (UK) market, and the first by a company in the "fast-moving consumer goods" sector.

Jean Marc Huet, Unilever's Chief Financial Officer, explains: "We have a clearly defined ambition in Unilever, articulated by our Sustainable Living Plan. By issuing our first Green Sustainability Bond, our intention is to invite investors to support our vision for sustainable growth, while investing in the Unilever credit."

Source

Click [here](#) to read about **Aviva's** efforts to change the financial paradigm of stock exchanges around the world. Aviva is a UK-based insurance and investment company.

PUMA, a global sports apparel brand, pioneered and released its first Environmental Profit and Loss Statement (EP&L). [Read](#) the story.

When **Unilever** decided to end traditional quarterly earnings guidance, it found that having a board member who understood the corporate (sustainability) strategy and could explain it to key investors was invaluable ([source](#)).

Here is a description of Unilever's efforts to attract long-term investors: [link](#).

Apple CEO challenges profit maximizing shareholder

During Apple's annual shareholder's meeting in February 2014, CEO Tim Cook rebuffed a representative from the National Center for Public Policy Research that asked the company to disclose the costs of its sustainability programs, such as solar energy facilities, and to embrace a corporate policy that focused on profits above all else. The representative asked Cook about the impact of the company's renewable energy programs on its bottom line, and also asked Cook to commit to only undertaking projects that were explicitly profitable.

The CEO replied that there are many things Apple does because they are right and just, and that a return on investment (ROI) was not the primary consideration on such issues. "When we work on making our devices accessible by the blind," he said, "I don't consider the bloody ROI." He said the same thing about environmental issues, worker safety, and other areas where Apple is a leader. Finally, Cook looked at the questioner and said "if you want me to do things only for ROI reasons, you should get out of this stock."

Source

WHERE CAN I GO FOR MORE INFORMATION?

- The Accounting for Sustainability Project (A4S) is a UK-based organization with a global mission to work with the accounting and finance community to demonstrate the business case, increase engagement and build capacity to drive behaviour change that results in sustainable business practices; develop practical tools, guidance and approaches that enable environmental, social and economic risks and opportunities to be reflected in decision-making; and facilitate the creation of an enabling environment for change through a shift to sustainable capital markets, and supportive regulatory and reporting regimes. www.accountingforsustainability.org
- The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. Together, this coalition shares the view that communication about value creation should be the next step in the evolution of corporate reporting. The IIRC is the global authority on Integrated Reporting <IR>. Its long-term vision is a world in which integrated thinking is embedded within mainstream business practice in the public and private sectors, facilitated by <IR> as the corporate reporting norm. The cycle of integrated thinking and reporting, resulting in efficient and productive capital allocation, will act as forces for financial stability and sustainability. www.theiirc.org
- "Enhancing Investor Engagement: A Practical Guide for Investor Relations Teams to Engage on the Drivers of Sustainable Value", Accounting for Sustainability <https://www.accountingforsustainability.org/wp-content/uploads/2014/12/A4S-Investors-December-2014v2.pdf>
- Systematic Review: Bringing Long-term Thinking into Business, Network for Business Sustainability <http://nbs.net/knowledge/strategy/long-term-thinking/systematic-review/>
- Systematic Review: Measuring and Valuing Social Capital, Network for Business Sustainability <http://nbs.net/knowledge/stakeholder/social-capital/systematic-review/>
- Conference Board of Canada webinar on the role of the Chief Financial Officer ([link](#)). Contact publications@conferenceboard.ca and quote CBSR to see if you qualify for free or discounted access.

