

# SUSTAINABILITY ACCOUNTING: What the Universe Needs

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# Presentation Outline



- Definitions and Context
- Wealth Maximization vs Triple Bottom Line
- Global Reporting Initiative
- State of Practice in Kenya and Emerging Markets
- <Integrated Reporting> Framework
- Role of ICPAK and its members
- Discussion

# Definition - Universe



u•ni•verse

/ˈyoʊnəˌvɜrs/

all existing matter and space considered as a whole; the cosmos. The universe is believed to be at least 10 billion light years in diameter and contains a vast number of galaxies; it has been expanding since its creation about 13 billion years ago.

# The Universe in Context



X

You are here.



X

You are currently on a 4.5 billion year old spaceship.

A self sufficient, organic, complex spaceship.

You are orbiting a power source that is a million times larger than your ship.

There are 200 billion more power sources, possibly with ships like yours, in your group.

There are 40 more groups in your particular neighborhood.

Your neighborhood is moving at 2 million miles per hour to an object that is 150 million light years away.

Welcome to life. It's more exciting when you think on a larger scale.



# Impact of Man's Activities



- ☐ Deforestation (Trees produce Oxygen)
- ☐ Over-Population
- ☐ Hazardous Waste
- ☐ Pollution (Smog, Acid rain, Ozone depletion)
- ☐ Overuse of Natural Resources
- ☐ Greenhouse gas emissions
- ☐ Severe ecological damage

# Definitions - Sustainability



- ❑ Conserving an economic balance by avoiding depletion of natural resources
- ❑ Capability of being maintained at a steady level without exhausting natural resources or causing severe ecological damage

# Objective of the Firm



Profits

Time Value

NPV

Agency theory

Risks & Certainty





# The Debate through History



*My company is  
'organised to  
do as much good as we  
can, everywhere, for  
everybody  
concerned... And,  
incidentally, make  
money.'* If you gave  
workers a good wage and  
sold inexpensive cars '*the  
money  
will fall into your hands*', -  
Henry Ford, c1919.





# The Debate through History



‘Those advocating corporate responsibility were advocating pure and unadulterated socialism.’

“There is one and only one social responsibility of business – to use its resources to engage in activities designed to increase its profits so long as it stays within the rules of the game”. *Milton Friedman, 1970*

# Impact of Business Activities



- ✓ Create / Innovate products and services for public
  - ✓ Produce jobs / skills
  - ✓ Create markets
  - ✓ Pay Taxes
- 

- ✗ Pollute and deplete
- ✗ Exploit workers and economies
- ✗ Undermine global markets
- ✗ Undermine financial stability

# The Debate through History



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*Companies do not function in isolation from the society around them... In the long run, then, social and economic goals are not inherently conflicting but integrally connected. Productivity depends on having workers who are educated, safe, healthy, decently housed, and motivated by a sense of opportunity.' – Michael Potter and Mark Krammer, 2002*

# Evolution of Sustainability Reporting



## Environment, Health & Safety (EHS)

- employee health
- on-the-job accident rates
- emissions and spills
- volumes of waste generated
- initiatives to reduce

## Corporate Social Responsibility (CSR)

- Like HSE but with a emphasis on social matters
- ethical labor practices, training, education and diversity
- corporate philanthropic initiatives.

## Climate change or greenhouse gas emission reporting

- greenhouse gas emissions
- efforts to reduce emissions
- regulatory or voluntary

# Triple Bottom Line



The most widely accepted definition of sustainability nowadays is the “triple bottom-line” consideration of:

- 1) economic viability
- 2) social responsibility
- 3) environmental responsibility.

The triple-bottom-line definition of sustainability is a broad concept. It is concerned with:

- preservation of the physical environment and stewardship of natural resources,
- the economic and social context of doing business
- the business systems, models and behaviours necessary for long-term value creation.

# Standardization Efforts



## Global Reporting Initiative :

- most widely used reporting framework and is committed to continuous improvement and global application
- reports based on the GRI framework can be used:
  - to benchmark performance with respect to laws, norms, codes, performance standards and voluntary initiatives;
  - Demonstrate commitment to sustainable development; and
  - compare organisational performance over time.

## Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises:

- recommendations addressed by governments to multinational enterprises operating in or from adhering countries.
- provide voluntary principles and standards for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation.

## United Nations Principles for Responsible Investment (PRI):

- provides a framework for institutions to assist them in making ESG considerations when investing

## United Nations Global Compact:

- The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles

## Dow Jones Sustainability Index:

- Launched in 1999, the Dow Jones Sustainability Indexes are the first global indexes tracking the financial performance of the leading sustainability driven companies worldwide.

**The Equator Principles:** A financial industry benchmark established in 2003 for determining, assessing and managing social and environmental risk in project financing

# Global Reporting Initiative



- **Global Reporting Initiative (GRI)** are an independent organisation that was setup in the late 1990's by an NGO called CERES. Later moved to Netherlands.
- The reporting standards set by GRI are done with the following ideas and elements in mind:
  - **Multi Stakeholder Input:** Combination of technical expertise and diversity of practical experience
  - **A Record of Use and Endorsement:** 92% of the worlds largest 250 companies report using the GRI standards and this number is set to grow
  - **Governmental References and Activities:** The GRI has long standing relationships with over 20 international organisations such as UNGC and OECD
  - **Independence:** The global sustainability standards board gives a greater degree of independence while funding is secured from diverse sources ensuring there isn't a strong influence exerted by one key investor.



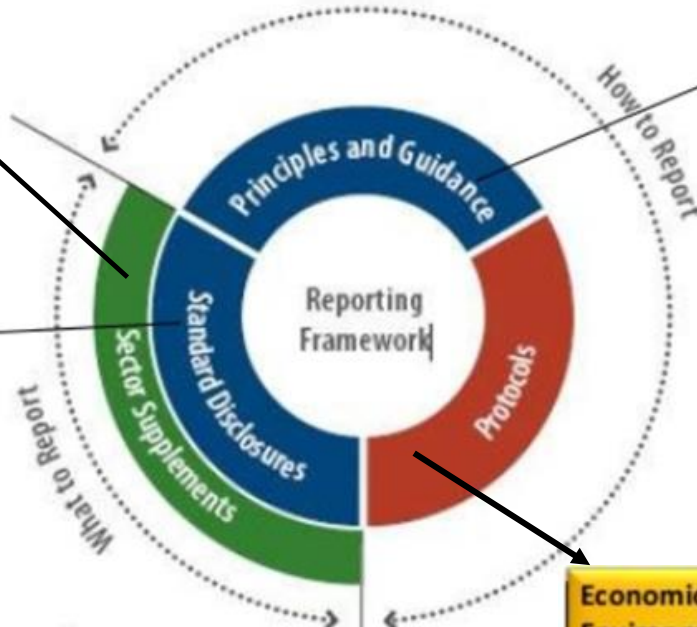
# GRI Framework



- Airports
- Apparels
- Food Processing
- Tour operators
- LSPs
- NGOs
- etc

## Standard disclosures

- Strategy & profile
- Management approach
- Performance Indicators



## Principles for defining contents:

- Materiality
- Stakeholder inclusiveness
- Sustainability context
- Completeness

## Principles for defining quality:

- Balance
- Clarity
- Accuracy
- Timeliness
- Comparability
- Reliability

Economic  
Environmental  
Social  
Human rights  
Society  
Product responsibility

# GRI standard disclosures

## 1. Profile Disclosures

- ☐ Strategy & Analysis of the organization
- ☐ Organizational Profile
- ☐ Report Parameters for the organization
- ☐ Governance, Commitments and Engagements of the organization

## 2. Disclosures on Management Approach

## 3. Disclosure on Performance Indicators

- ☐ Economic
- ☐ Environmental
- ☐ Social
  - Labour Practices and Decent Work
  - Society
  - Human Rights
  - Product Responsibility



# GRI Performance Indicators Examples (G4)



- Financial implications and other R&O due to climate change
- Local Hiring

## Economic



- Materials used that are recycled
- Energy consumed
- Volume of waste
- Impact of transportation

## Environment

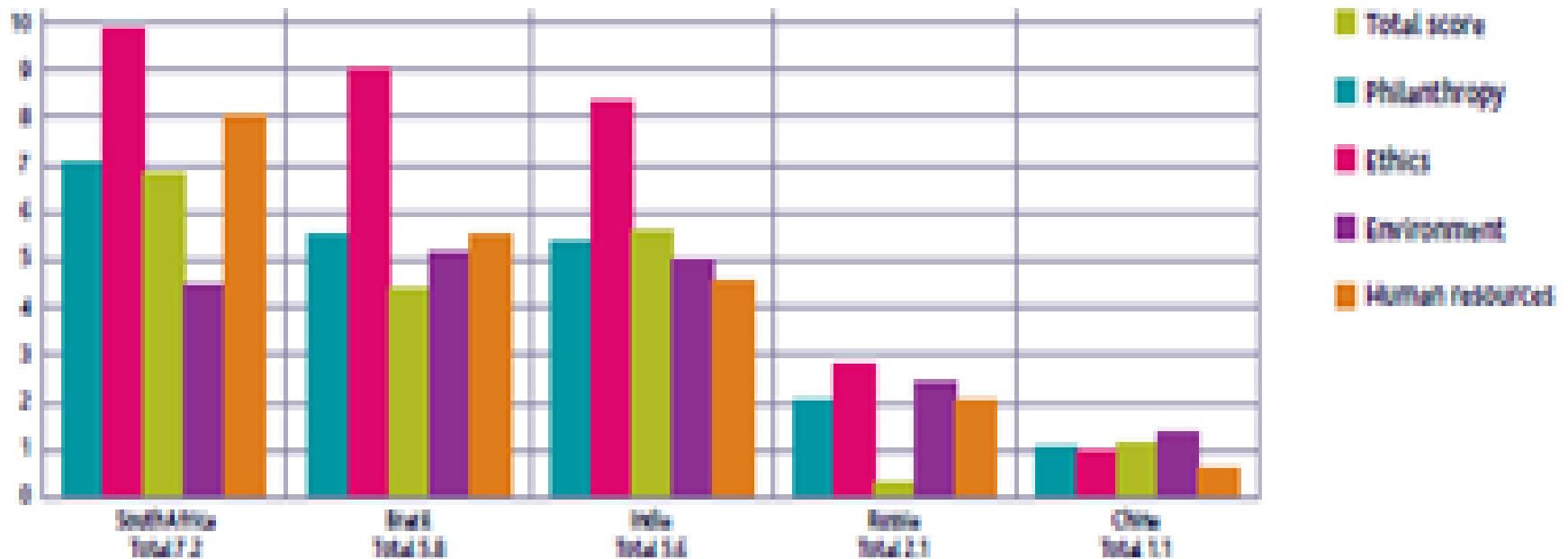


- Health and Safety measures
- Hours of training
- Human right screening of suppliers
- Customer satisfaction

## Social



# BRICS Experience



Comparative BRICS Scores on corporate reporting Chart 4.1 Baskin, J 2006<sup>5</sup>

# East Africa – Safaricom Example



## THE YEAR IN REVIEW



**30%**  
of senior  
management  
are women



Water  
consumption  
**▲2%**  
to 96,650 m<sup>3</sup>

**98%**



of staff trained  
on ethics and  
anti-corruption



Fined  
**KES 270,056,720**  
by the Communications  
Authority for failing to  
meet its Quality of Service  
requirements



**632**  
tonnes of e-waste  
collected since 2013

**70%**



Safaricom staff  
dedicating  
their time to  
community projects



**4**

Fatalities\*

\* Two employees, one contractor  
and a third party

**98%**

suppliers signed up  
to the Code of Ethics  
for Businesses in Kenya



Fuel  
consumption  
**▼2.7%**  
to 9,446,251 litres



# East Africa – KCB Example



Q4 2014 results

Our material issues represent the primary risks and opportunities that could have a significant impact on our ability to deliver and create value to our key stakeholders, the social, economic and environmental boundaries within which we operate and which have a direct impact on our future.

An issue is material when it has the potential to impact our ability to remain commercially viable and socially relevant to the societies we operate in. Effectively managing our material issues is critical to achieving our strategic objectives. We have over the last few years reassessed and undergone an extensive exercise across the business to identify our material issues that will enable us to achieve our overall sustainability strategy. We have developed a 10 point action plan that outlines the various short, medium and long-term initiatives that form the basis of our material issues.

Our approach going forward will be to continuously assess the relevance of these issues to the dynamic nature of our business and update them as need be.

## Progress against our 10 Point Action Plan

	YOY change	2014	2015	2014	Target
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### Capacity Building

Sustainability awareness	▲	80%	30%	10%	90%
Number of staff trained on Environmental and Social Risk Assessments	▲	3,633	300	-	5,000
Number of staff trained on the Industry Sustainable Finance Initiative (SFI)	▲	3,786	-	-	5,000



### Responsible Lending

Number of Social-Environmental Assessments undertaken in the year	▲	42	41	27	100
Value of facilities that have undergone Social-Environmental Assessments (in Ksh. Billion)	▼	89.1b	98.7b	61b	N/A
Percentage integration of Environmental and Social Management System (ESMS) in the Group	▶	100%	100%	50%	100%
Percentage achievement rate on Business Process Re-engineering (BPR) implementation i.e. simplification of products and services	▲	100%	50%	-	100%
Cost to Income Ratio (CIR)	▼	47.6%	50%	50%	49%
Customer Satisfaction Index	▼	74%	N/A	77%	85%



### Employee Development

Employee satisfaction rate (%)	▲	87%	82%	80%	85%
Staff attrition rate (%)	▲	4.7%	4.5%	5%	+5%
Average training days per employee	▲	8.3	7.32	5.7	5
Number of employees who have undergone online training	▲	5,506	5,475	4,113	7,723

	YOY change	2014	2015	2014	Target
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### Environmental Impact

Adoption of KCB Green Agenda (%)	▲	30%	20%	10%	100%
Diesel consumption for generators and fleet (t)	▲	2,937,797	2,227,626	4,833,590	Annual 5% reduction
Electricity consumption (MWh)	▲	20,970	13,982	19,243	Annual 5% reduction

\* South Sudan electricity consumption are not disclosed above. This is because the branches in South Sudan are run entirely on generators and hence do not have information on electricity but fuel for generators.



### Ethics and Integrity

Fraud cases	▼	22	33	20	NIL
Fraud training (%)	▲	98%	73%	82%	100%
Number of fraud cases reported	▼	57	87	111	NIL
Percentage completion of annual mandatory Ethics E-Learning course across the Group	▲	71%	57%	72%	100%
Number of employee dismissals relating to fraud	▼	31	33	20	NIL
Number of successful fraud attempts (incidences)	▼	447	528	267	NIL
Number of unsuccessful fraud attempts (incidences)	▼	75	111	87	NIL
Number of suppliers signed up to the code of ethics	▲	100	-	-	125



### Community Investment

Number of scholarships awarded under the Scholarship Programme	▶	240	240	240	240 per year
Amount disbursed in the Inua Jamii Program (in Ksh. Millions)	▲	18m	9m	NIL	18m
Amount allocated to mobilization through partnerships to support Livestock Project (in Ksh. Millions)	▼	166m	268.9m	180m	70m
Number of youth upskilled under the Youth project	▲	3,000	-	-	10,000
Number of farmers reached under the Miungu ni Mali project	▲	30,000	26,000	10,812	50,000
Percentage spent on procurement - local spend	▲	89%	83%	90%	60%
Percentage spent on procurement - international spend	▼	11%	17%	10%	40%

# Kenyan Problems





# Standardization Efforts – Towards Convergence



## International Integrated Reporting Committee (IIRC):

- Launched in August 2010
- Joint initiative of the *Prince of Wales' Accounting for Sustainability Project (A4S)* and the *Global Reporting Initiative*
- Objective is to create a globally accepted framework for accounting for sustainability that brings together: **financial, environmental, social, and governance** information
- In a clear, concise, consistent and comparable format.
- The intention is to help with the development of more comprehensive and comprehensible information about an organisation's **total performance, prospective as well as retrospective**, to meet the needs of the emerging, more sustainable, **global** economic model.
- The committee and **working groups involve representatives** from the corporate, accounting, securities, regulatory, non-governmental organisation, and standard setting sectors.

# Connected or Integrated Reporting



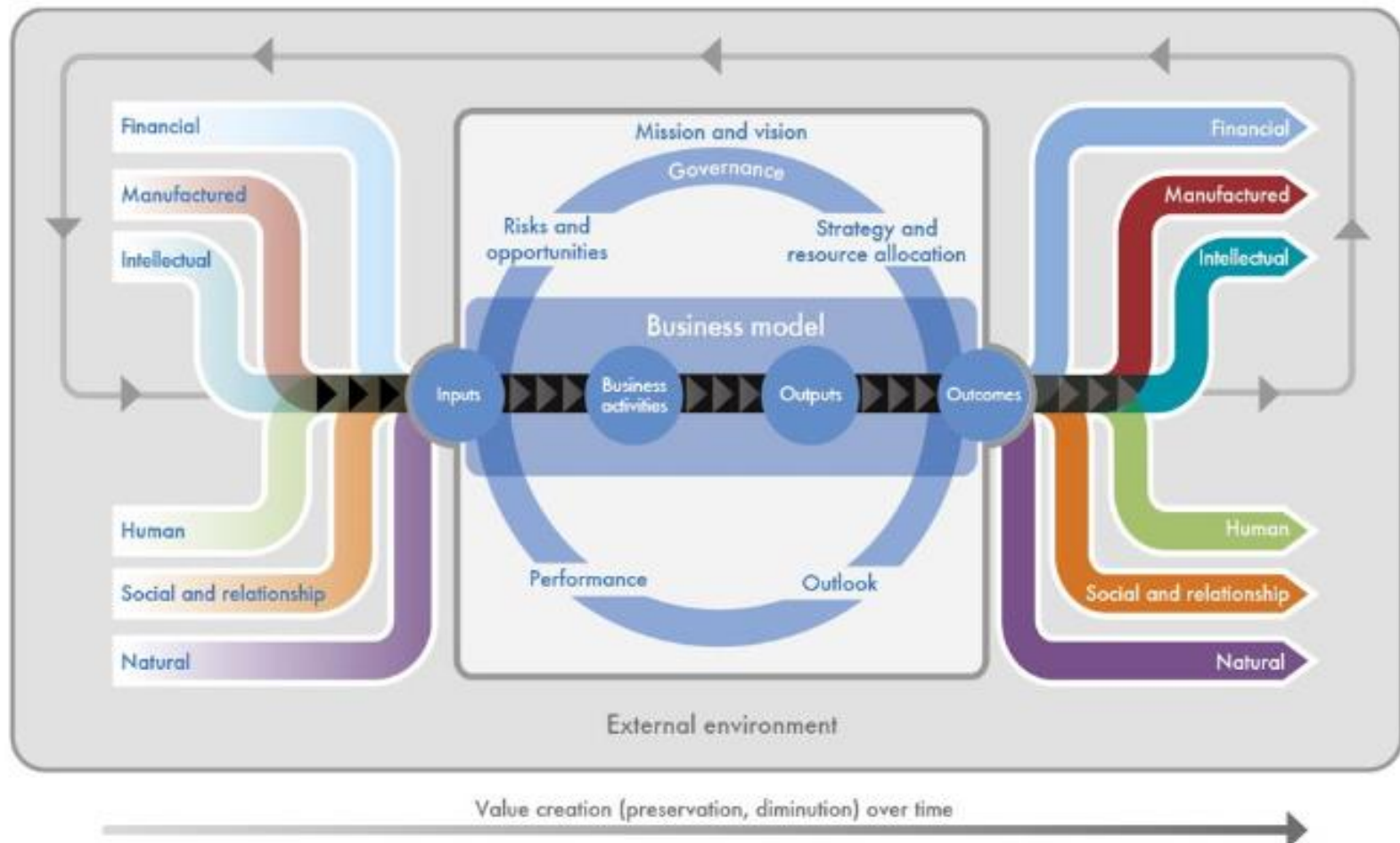
- ❑ Connected or integrated reporting, is the reporting of both financial and non-financial information, including sustainability information, in an integrated way,
- ❑ It contrasts with the current prevailing practice of issuing separate, stand-alone financial and sustainability reports.
- ❑ The trend towards connected reporting is responsive to the perceived need for enhanced reporting that connects
  - Connects strategy, risk and performance
  - Encompasses financial measures, key performance drivers, and sustainability opportunities and impacts.

# Connected or Integrated Reporting



- An <IR> is **concise communication** about how an organization's **strategy, governance, performance and prospects**, in the context of its external environment, lead to the creation of value in the short, medium and long term.
- Quantitative and qualitative information is used to show how the **6 stocks of value (capitals)** are impacted by the activities and outputs of an organization.
- The 6 capitals are: **financial, manufactured, intellectual, human, social and relationship, and natural.**

# The <IR> Framework



# <IR> Content Considerations



- Overview of business and environment
- Sustainability strategy ST, MT & LT +  
Integration into business model, value etc
- Identify KPIs
- Balanced and Transparent (Good, Bad & Ugly)
- Risks and Opps
- Materiality
- Impact of sustainability on bottom-line
- Upward and downstream value chains
- Incentivisation strategy and buy-in
- Engagement and feedback
- Governance /  
accountability framework  
for program
- Assurance / Endorsement

# <IR> Example - India



ASPECT	OBJECTIVE	UNIT	GOAL 2015/2016	ACHIEVEMENT		
				2015/2016	2014/2015	2013
FINANCIAL CAPITAL	1. Revenue	Rs.Min	3,800	3,323	4,643	3,528
	2. Gross Profit	Rs.Min	290	247	437	337
	3. Return on Equity (ROE)	%	6.5	6.7	13.9	10.8
	4. Debt to Equity	%	34.1	30.2	36.4	48.9
MANUFACTURED CAPITAL	1. New Machinery acquisitions	Rs.Min	20	7.66	46.51	22.74
	2. Production	Mn.kg	7.7	6.8	8.8	7.3
	3. Made tea out turn	%	22.20	22.21	22.31	22.05
INTELLECTUAL CAPITAL	1. Recognitions & Awards	Number of main awards	20	15	15	16
	2. Certifications					
	⊗ ISO 22000 –FSMS	Number of estates	14	13	13	13
	⊗ Rainforest Alliance	Number of estates	14	14	13	13
	⊗ Ethical Tea Partnership	Number of estates	14	14	13	13
	⊗ UTZ	Number of estates	14	01	01	01
	3. Reputation and brand value	RPC GSA Ranking	01	01	02	02
HUMAN CAPITAL	1. Total Worker Productivity	kg/Worker	2.75	2.7	2.7	2.6
	2. Worker Attendance	%	80	65	68	70
	3. Investment on Employee Training	Rs.Min	1.5	1.3	1.6	1.5
	4. Worker Turnover	%	10	06	22	09
SOCIAL & RELATIONSHIP CAPITAL	1. New Housing	Units	20	32	11	10
	2. New Sanitary Facilities	Units	100	242	30	22
	3. Investment on Social	Rs.Min	50	54.8	30.5	24
	4. Infrastructure Development	Rs.Min	18	17.3	15.4	13.1
COMMUNITY DEVELOPMENT	Investment on Social Activities and community development					
CUSTOMER & SUPPLIER RELATIONSHIP	1. Customer Complaints	Nos	0	22	10	13
	2. Customer Satisfaction Index	%	100	70	71	65
	3. Total Local supplier percentage	%	95	99.7	96	94
	4. Tea Small holder supplies	kg	1,333,000	938,751	1,585,725	1,252,095
NATURAL CAPITAL FIELD DEVELOPMENT & PERFORMANCE	1. Yield per Hectare	kg/hect/annum	1,679	1,547	1,887	1,570
	2. Replanting-Tea	hec/annum	35.94	29.41	46.25	27.47
	3. Planting of Fuelwood & Timber Species	hec/annum	52.5	52.72	54	11.04
	4. Investment on Field Development	Rs.Min	140	105	79.2	71.5
ENVIRONMENTAL STEWARDSHIP	1. Generation of Hydropower	kWh-mn	10	8.2	6.9	9.0
	2. GHG Emissions-Carbon Footprint	tCO <sub>2</sub> e	5,000	5,660	5,495	5,696

# Benefits



- Demonstrate **commitment to the environment** or **social issues to employees and communities**
- Promote **transparency** and solicit feedback on their performance in response to **demands for information** from:
  - investors, customers, regulators, advocacy groups and non-governmental organizations (NGOs)
- Manage **and communicate risk** better
- Enhance or protect their **reputation** and **competitive advantage**
- Grow **shareholder and brand value**



# Some Criticisms



- Not enough data ...Big Data?
- Too many indicators
- Value Chain assessments too complex
- Conflict with Rating agencies
- Cost
- Top management appetite for more openness

# What Accountants can do - Business



- identify ESG opportunities and risks and develop strategies that address the same
- Support global convergence efforts and Kenyanisation (Big 4, Hand Shake, Mau Water Tower)
- Support bench-marking and local research
- Accounting for tradable shares
- Spearhead and early-adopt technologies to assist collect and analyse ESG data (AI, Big Data, Block Chain etc)
- Assurance
- Training (KASNEB, Seminars etc)
- Public sector application
- **NATURE ABHORS A VACUUM**

# Key References & Resources

- <https://www.aicpa.org/interestareas/businessindustryandgovernment/resources/sustainability/sustainabilityfaqs.html>
- Adams and Frost, (2006) *Accounting for ethical, social, environmental and economic issues: towards an integrated approach*, CIMA may be viewed at:  
[www.cimaglobal.com/sustainability](http://www.cimaglobal.com/sustainability)
- <https://www.cimaglobal.com/Research--Insight/Sustainability-in-emerging-markets-lessons-from-South-Africa/>
- <http://integratedreporting.org/>

# Interactive Session



Q

&

A