

Prepared for

**<IRRC> Brazil**  
**At FEBRABAN, Sao Paolo,**  
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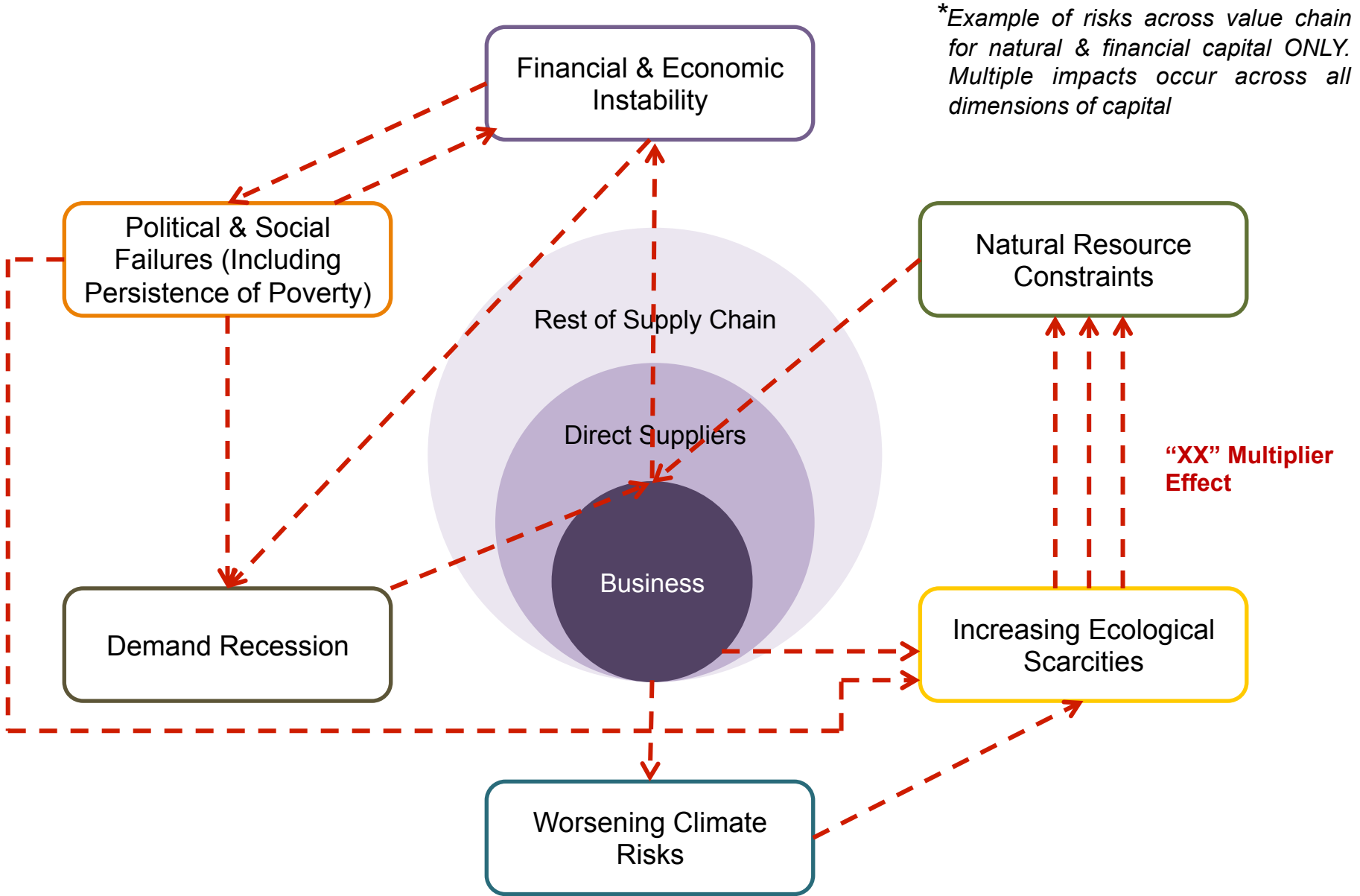
**Integrated Profit & Loss**  
**Accounting for IRRC**



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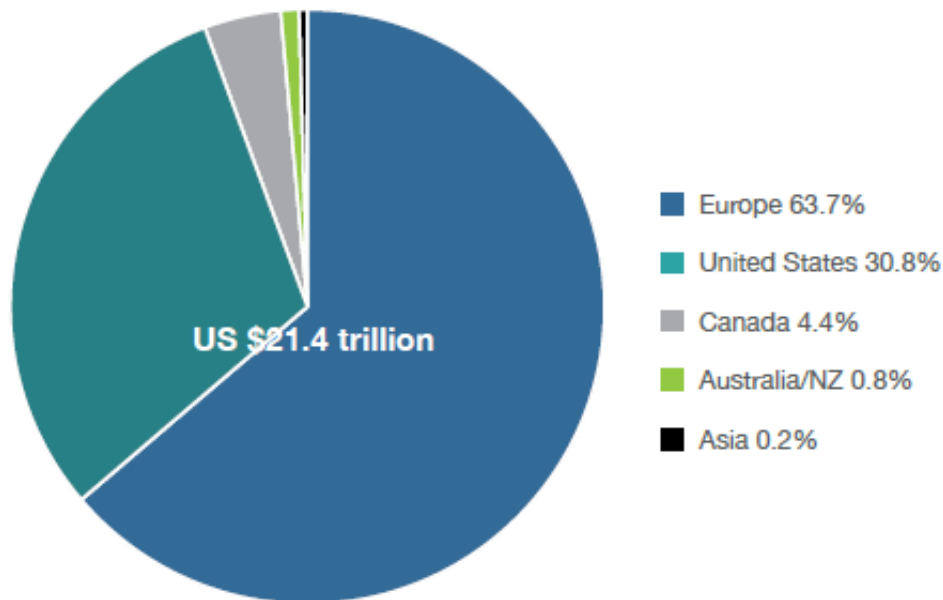
# Goal: Integrated Management for Complexity



# Recent Growth in “SRI”/ “ESG” Investment

- Global SRI assets have expanded 61% in just two years, from USD 13.3 trillion (2012) to USD 21.4 trillion (2014)
- Strong ‘stakeholder’ performance & credible metrics will attract new capital

**Figure 1:** Proportion of Global SRI Assets by Region

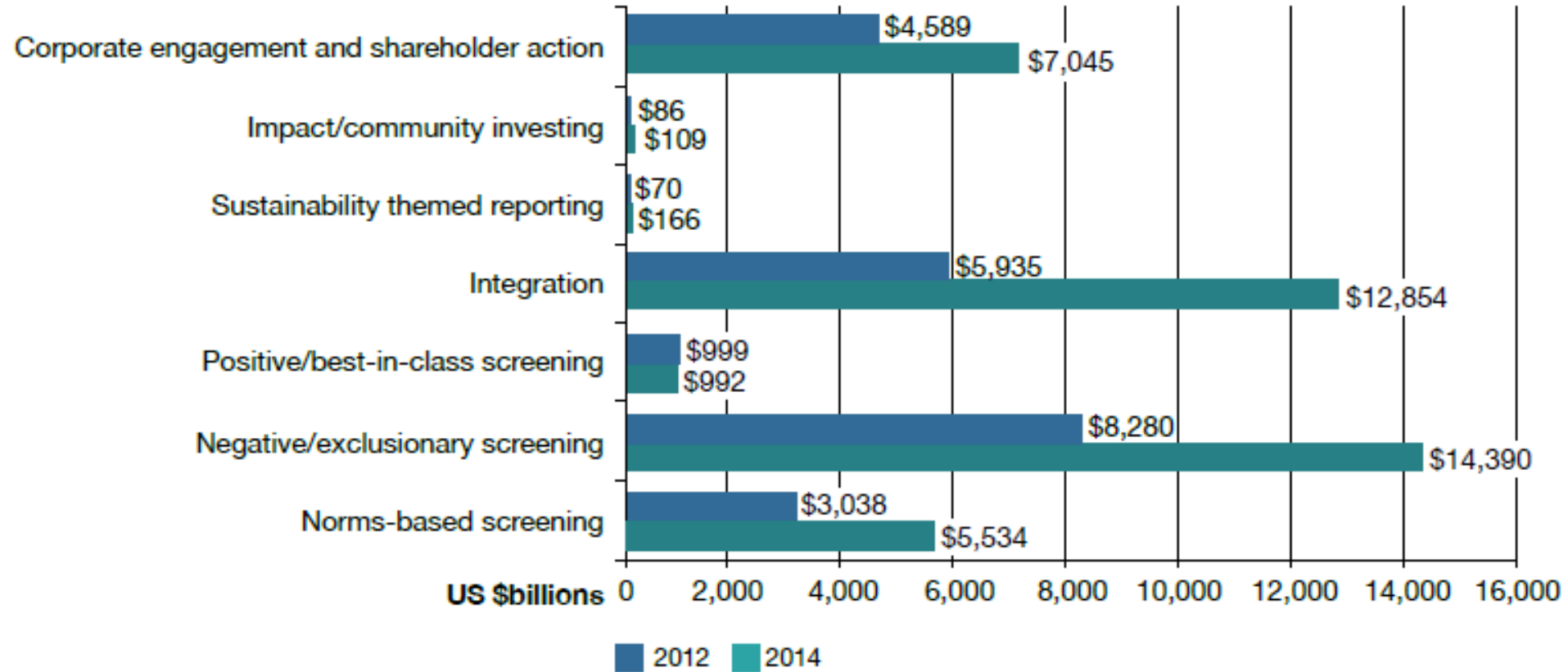


**Table 1:** Growth of SRI Assets by Region 2012–2014

	2012	2014
Europe	\$8,758	\$13,608
United States	\$3,740	\$6,572
Canada	\$589	\$945
Australia/NZ	\$134	\$180
Asia	\$40	\$53
<b>Total</b>	<b>\$13,261</b>	<b>\$21,358</b>

# Selection Strategies among SRI/ESG investors...

**Growth of Strategies 2012-14**



# Investors' Feedback...

**84%** disagreed or strongly disagreed that companies had made it clear how they identified “material” non-financial issues

**66%** felt that the following additional areas should be addressed by companies

- Corporate governance
- Supply chain impacts
- Company specific issues
- Sector specific issues

**84%** agreed or strongly agreed that established standardized reporting frameworks should be used by companies

**89%** agreed or strongly agreed that reporting should be forward looking in addition to providing information on past performance

**96%** agreed or strongly agreed that quantitative key performance indicators are essential to assess corporate sustainability performance

**92%** agreed or strongly agreed that financial and non-financial information should be more integrated

# Capitals Framework

Drivers>Outcomes>Impacts



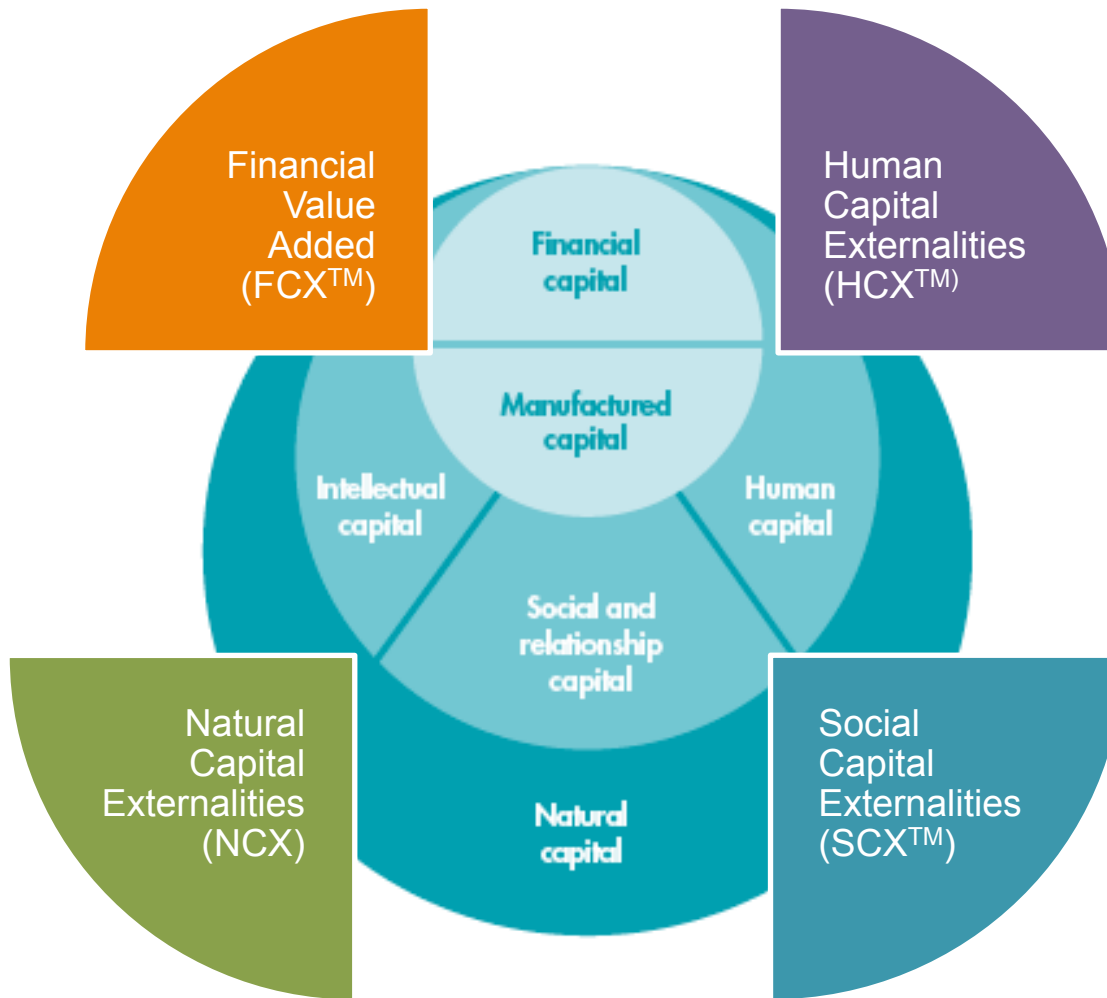
# Business' Impacts on Different Dimensions of Wealth

- Business depends on, and/or has impacts on, ALL dimensions of private & public wealth
- Measures and reports only on shareholder wealth – i.e., impacts on privately owned physical capital.
- Measuring and reporting on an integrated basis across all capital pools is necessary for measuring sustainability at a corporate level.

	Physical Capital	Human Capital	Social Capital	Natural Capital
<b>Private Ownership</b>	<ul style="list-style-type: none"> <li>• Factories</li> <li>• Buildings</li> <li>• Securities</li> <li>• Cash</li> </ul>	<ul style="list-style-type: none"> <li>• Health</li> <li>• Education</li> <li>• Job Skills</li> </ul>		<ul style="list-style-type: none"> <li>• Gardens</li> <li>• Fields</li> <li>• Forests</li> </ul>
<b>Community Ownership* (Club Goods)</b>	<ul style="list-style-type: none"> <li>• Community Centres</li> <li>• Community Schools</li> </ul>	<ul style="list-style-type: none"> <li>• Traditional Community Knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Community Norms &amp; Customs</li> </ul>	<ul style="list-style-type: none"> <li>• Community Forests</li> <li>• Grazing Commons</li> </ul>
<b>Public Ownership* (Public Goods)</b>	<ul style="list-style-type: none"> <li>• Roads</li> <li>• Bridges</li> <li>• Public Hospitals</li> </ul>	<ul style="list-style-type: none"> <li>• Public Databases</li> <li>• Non-patent Knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Law &amp; Order</li> <li>• Taxation</li> <li>• Social Equity &amp; Inclusion</li> </ul>	<ul style="list-style-type: none"> <li>• High Seas Fisheries</li> <li>• National Parks / Forests</li> </ul>

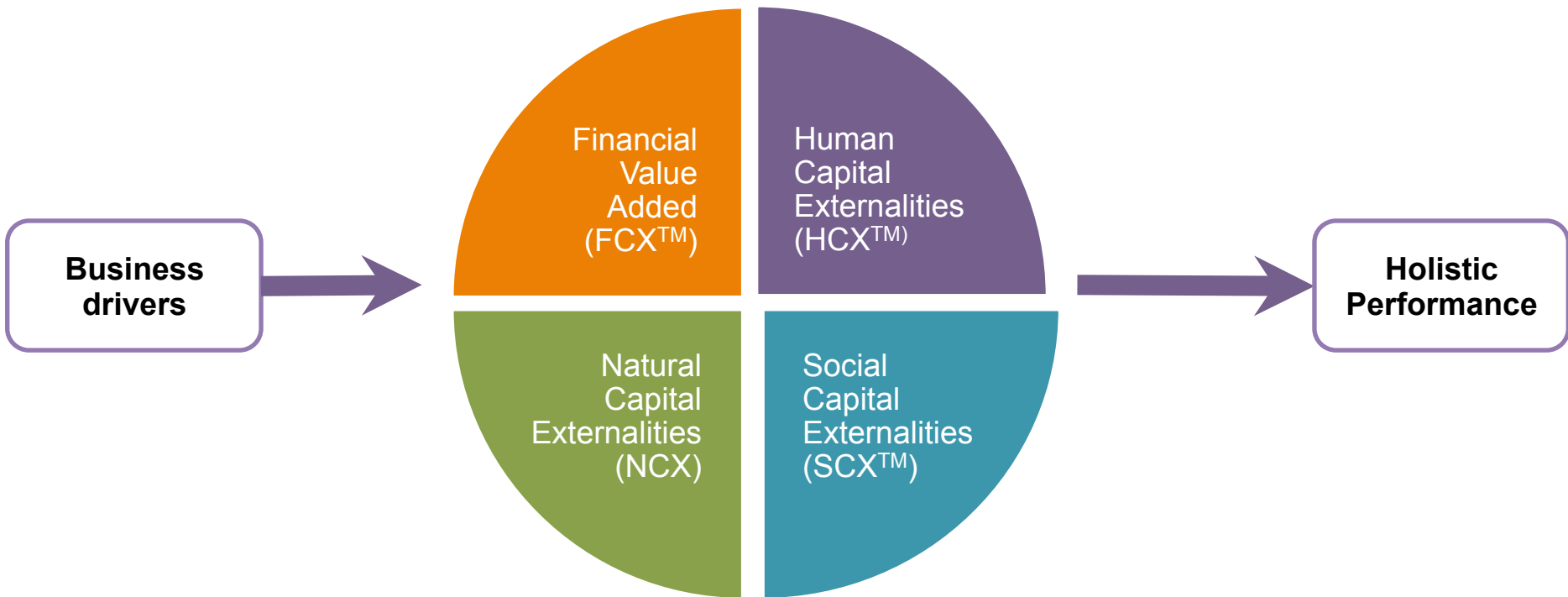
\* Community wealth and public wealth are elements of “**shared value**”

# Categories of Capital and Major Externalities





# Mapping <IIRC> to Env. Econ. Capital Categories



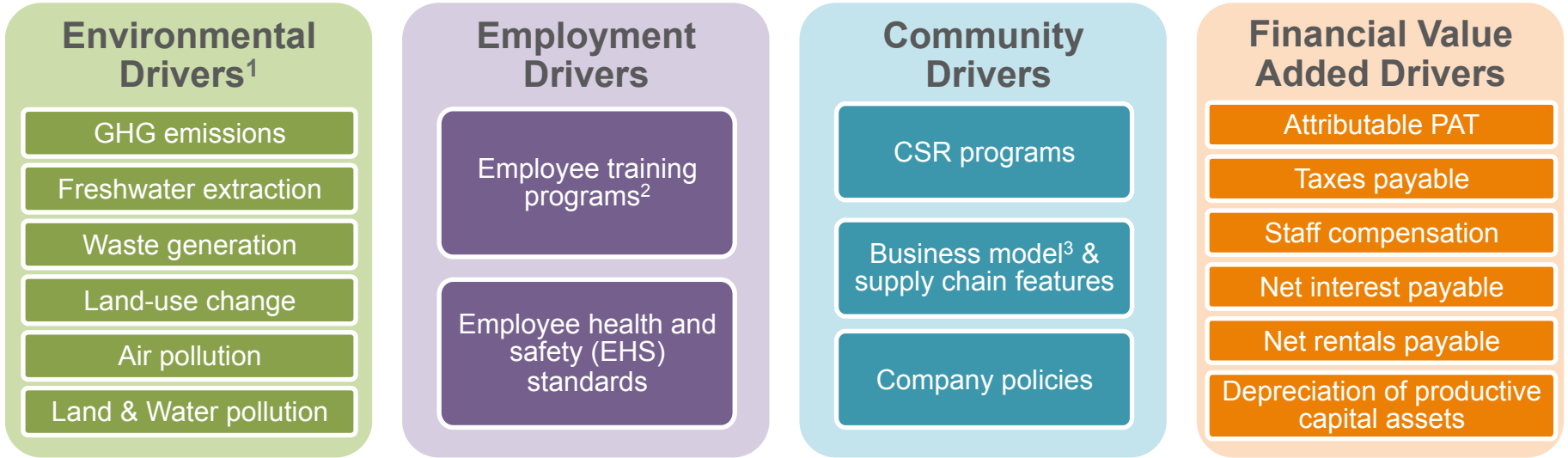
# Valuation Framework

Drivers>Outcomes>Impacts



# GIST Advisory's Stakeholder Valuation Framework

- **Process of examination and elimination**, to determine which third-party impacts deserve closer attention, measurement, disclosure and management on the **basis of materiality**.
- **Seventeen major drivers of externalities** arising from typical business activities, which most commonly generate the most significant third-party impacts.

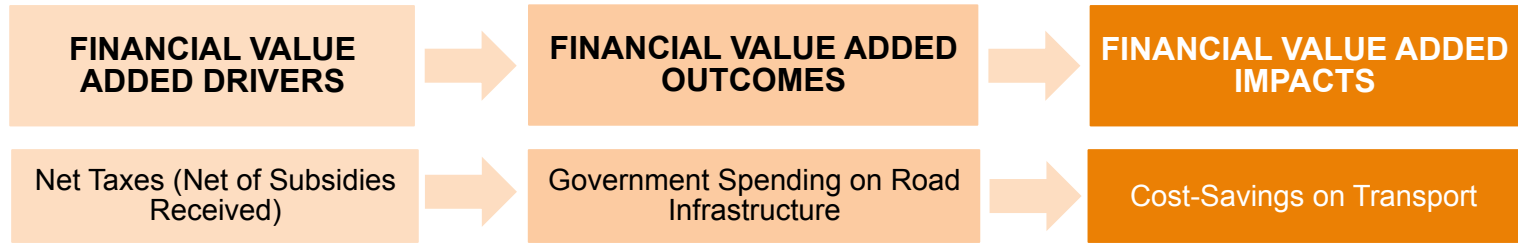
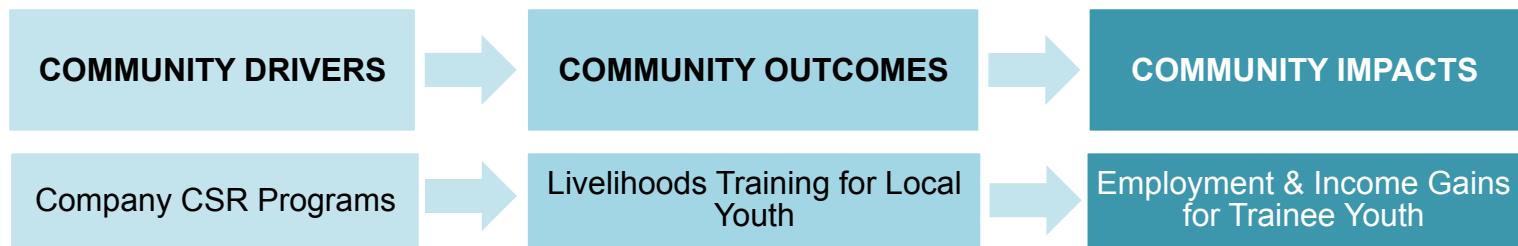
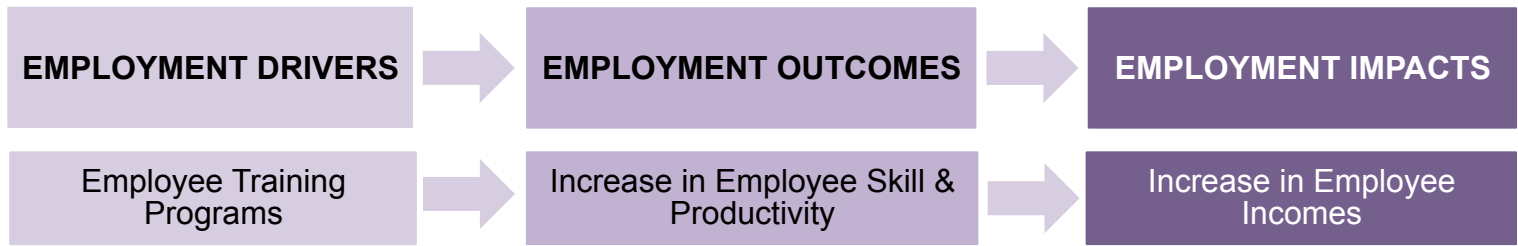
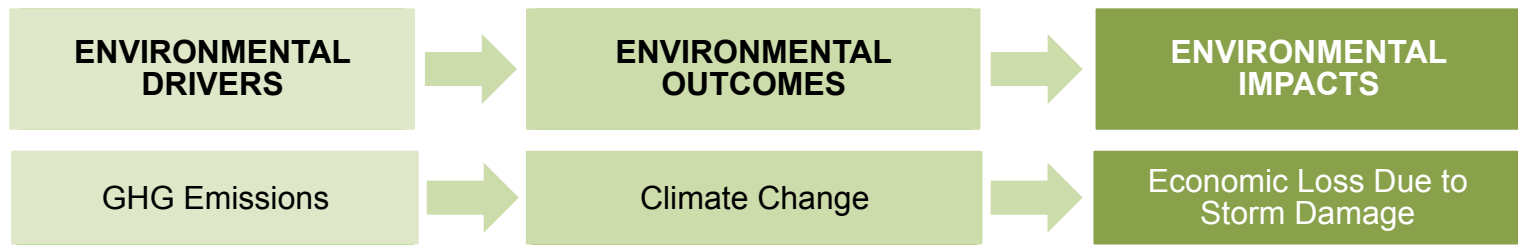


1. Five of these six environmental drivers were first used in PUMA's 2010 "E P&L" (Environmental Profit & Loss), a measurement and valuation of environmental externalities published by the company in November 2011

2. See example in Chapter 5, "Corporation 2020", describing the work of GIST Advisory to estimate human capital externalities of Infosys

3. Natura's business model (see Chapter 4, "Corporation 2020") is an example of one that generates positive social capital externalities).

# Drivers>Outcomes>Impacts Framework: Examples



# Measuring, Valuing & Integrating: “I-P&L”

	2014		2015		Annual change
	P	L	P	L	%
<b>Natural Capital (NCX)<sup>TM</sup></b>					
Upstream (\$Millions)		152		139	- 8.6%
Direct (\$Millions)		38		42	10.5%
Downstream (\$Millions)	37		43		16.2%
<b>Total</b>		<b>153</b>		<b>138</b>	<b>-9.8%</b>
<b>Social Capital (SCX)<sup>TM</sup></b>					
Upstream (\$Millions)	5		7		40%
Direct (\$Millions)	135		140		3.7%
Downstream (B2B) (\$Millions)	12		10		- 16.7%
Percentage increase	152		157		3.3%
<b>Human Capital (HCX)<sup>TM</sup></b>					
Upstream (\$Millions)		15		14	- 6.7%
Direct (\$Millions)	50		65		30%
Downstream (B2B) (\$Millions)		7		9	28.6%
<b>Total</b>	<b>28</b>		<b>42</b>		<b>50%</b>
<b>Financial Capital (FCX)<sup>TM</sup></b>					
Direct	230		355		54.3%
<b>Total</b>	<b>230</b>		<b>355</b>		<b>54.3%</b>

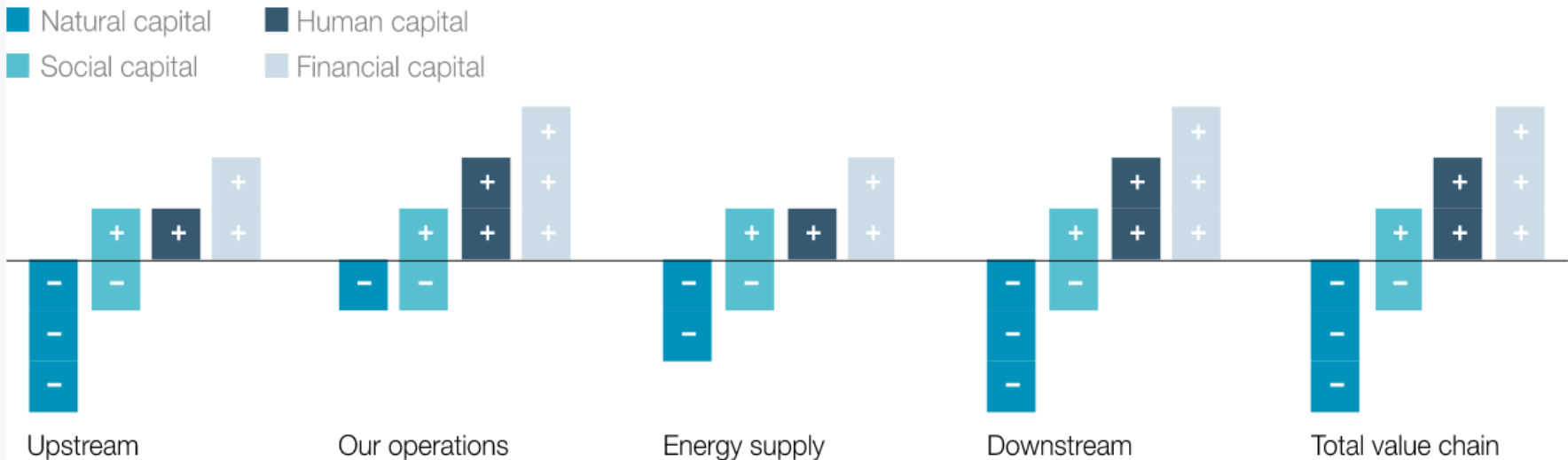
- Drivers from company’s direct operations as well as its value chain.
- Negative natural capital impacts are typically along direct operations and upstream material energy & supply chain providers and downstream B2B customers
- Positive human capital externalities are generated as a result of the company’s direct hiring and training of employees.
- Positive social externalities accrue as a result of the company’s CSR and socially responsible business models, whereas the negative externalities can accrue from both direct as well as upstream and downstream value chain.
- Enables year-on-year evaluation of performance across all dimensions of capital (see next slide).

# Example: Integrated Performance Report pilot by Akzo Nobel

In order to get a more detailed insight into how profit and loss is generated, AkzoNobel (AN) wanted to develop a deeper understanding across the value chain of how their business impacts the environment, people and society at large. Gaining a better understanding of these aspects – and attaching a monetary value to them – will enable them to identify possible improvements and ultimately increase business value.

The pilot study of AN’s Pulp and Performance Chemicals business in Brazil looked at their environmental, human, social and financial impact. By measuring these four dimensions across the whole value chain – including raw materials – as well as attaching an economic value to the positive and negative aspects of each, they were able to identify where they can improve. This new insight will enable them to make better business decisions by reducing the negatives and building on the positives.

### Monetized impact across the whole value chain (indicative<sup>1</sup>)



“What next?”



Risks & Opportunities

Category	Example of Risk (Natural Capital ONLY)	Example of Opportunity (Natural Capital ONLY)
<p><b>Operational</b></p> <p>Regular activities, expenditures and processes of the company</p>	<ul style="list-style-type: none"> <li>• Increased natural hazard costs e.g. storm damage due to degradation of protection provided by coastal ecosystems</li> <li>• Increased security costs e.g. due to stakeholder conflicts over natural capital use or depletion</li> <li>• Increased resource costs e.g. higher water charges</li> </ul>	<ul style="list-style-type: none"> <li>• Costs savings from maintaining or investing in green infrastructure e.g. protection against natural hazards, water filtration by natural systems</li> <li>• Improved efficiencies through minimizing resource use</li> <li>• Reduced resource use (volume and/or price)</li> </ul>
<p><b>Legal &amp; Regulatory</b></p> <p>Laws, government policies and regulations that can affect corporate performance</p>	<ul style="list-style-type: none"> <li>• Increased compliance costs</li> <li>• Production delays and losses due to permit denials or delays</li> <li>• Increased fines, compensation and legal costs e.g. due to natural capital impacts</li> <li>• New regulations and license fees e.g. new or elevated charges for water from aquifers</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced compliance costs</li> <li>• Permitting expedited</li> <li>• Reduced fines, compensation and legal costs e.g. due to avoidance of real and perceived natural capital impacts</li> </ul>
<p><b>Marketing &amp; Product</b></p> <p>Portfolio of products and services offered, customer preferences</p>	<ul style="list-style-type: none"> <li>• Changing customer values or preferences leads to reduced market share for products</li> </ul>	<ul style="list-style-type: none"> <li>• New products e.g. carbon, water, habitat credits, new markets for ecosystem services</li> <li>• Changing customer values or preferences leads to increased market share for products</li> <li>• Increased product premium</li> </ul>



# Integrated Management of Risks & Opportunities

Category	Example of Risk (Natural Capital ONLY)	Example of Opportunity (Natural Capital ONLY)
<p><b>Reputational</b></p> <p>Company image, relationship with customers, the public, government agencies and other stakeholders</p>	<ul style="list-style-type: none"> <li>• Increased employee recruitment and retention costs</li> <li>• Declining interest in shareholder investment</li> <li>• Decline in share price as investors see company not managing natural capital related risks</li> </ul>	<ul style="list-style-type: none"> <li>• Increased access to resources as partner of choice for governments and stakeholders</li> <li>• Increased market share for products</li> <li>• Improved ability to attract and retain employees</li> <li>• Increased share price as investors see a well-managed company reducing risks</li> </ul>
<p><b>Financial</b></p> <p>Costs and availability of capital from borrowing on open markets and other investors</p>	<ul style="list-style-type: none"> <li>• Increased financing costs (higher interest rates and harsher conditions)</li> <li>• Reduced financing options</li> </ul>	<ul style="list-style-type: none"> <li>• Access to IFC or Equator Bank financing</li> <li>• Reduced financing costs</li> <li>• New green funds available</li> </ul>

- Business' face similar risks and opportunities across other dimensions of capital as well
- Must recognise these in order to **minimize exposure and maximize benefits**

Thank You!

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