

“Social and Environmental Value Creation for Finance”

Robert Stenhouse

President, ACCA - Association of Chartered Certified Accountants, UK



Today's theme is 'Social and environmental value creation for finance', and my message is based on ACCA's latest Professional Insights publication of the same name, which is released this week. I would like to thank to the IOD for being part of the project for this report. IOD graciously co-convened a workshop with our members, and this provided invaluable inputs into the research, alongside other countries, to make this a truly global piece of research.

This report cogently, authoritatively and comprehensively describes the challenges businesses are called on to meet today. These challenges come at a time when climate change is raising sea levels and temperatures worldwide, and we hear urgent demands for a speedy and decisive response from business and governments:

Five Biggest Challenges

We examine five of the biggest challenges, in our report:

1. Increasing requirements from governments for better social and environmental performance.
2. Greater demands for more precise environmental, social and governance disclosures from investors.
3. Demands by central banks to understand the risk that climate change poses to markets.
4. Fast-shifting customer preferences that need new business models to produce products and services that meet new social and environmental expectations, and
5. A volatile environmental landscape in crisis and escalating social

problems challenge the moral rationale for continuing with business as usual.

In facing up to those challenges, companies clearly need to sync their strategy with social and environmental concerns. But firms and finance teams have often lacked the ability to report and act on social and environmental risks and value creation. This is now changing. There is a growing awareness that business's duty extends beyond reporting to stakeholders. There is value in creating and implementing a strategy that understands and recognises social and environmental issues as essential. The scale of the challenge is such that more and more businesses grasp that a genuine and strategic shift in culture and practice is essential. They have to serve the public interest by:

Serving the Public Interest

- Effectively disclosing and managing risks
- Understanding liabilities, and
- Exploring new opportunities to participate in a changing economy that is decoupled from environmental degradation and recoupled to societal benefit.

Our report argues that the period of inaction, that has been described by pioneering banker-turned-natural capital economist, Pavan Sukhdev, President of WWF International, as *'the biggest free lunch in the history of the universe'*, has come to an end. Governments, the public and investors want economies that assess value against the impacts of

production and consumption on the planet. Demands are growing for economies, which distribute resources responsibly in a way that generates *sustainable* prosperity. Our report explores the ways we can achieve this. It offers a way to navigate the demands of today's economy for companies that understand the necessity, the inevitability, and the true worth of social and environmental value creation.

As I mentioned earlier, the report was based on discussions and submissions from all around the world, notably from some of the countries that are most exposed to the risk attendant on climate change. We held multi-stakeholder roundtables with ACCA members and experts in Kuala Lumpur, Delhi, Karachi, Lahore and Ho Chi Minh City, and collaborated with actors across all sectors to uncover fresh and varied perspectives on the real challenges of social and environmental value creation.

Through assessing the gaps and engaging with experts from around the world, this report assessed the real world issues for the next generation of social and environmental value creation. That allowed us to plot practical pathways that are relevant to the widest possible array of industries, markets and regions.

Gains are not evenly Distributed

But they all boiled down to one unavoidable fact, regardless of geography or industry. The means by which scarce resources are distributed are not working effectively. Or, if they do work, their cost on the environment is difficult to bear. Despite decades of gains for many around the world, many more are being locked out of economic growth. In all regions of the world, per capita income growth remains skewed in favour of the highest earners, which poses a clear and present danger to social and environmental sustainability.

New technology has the potential to close the gap, but its governance is not up to scratch yet. Technological advances are changing business, work and social life – but they must be able to provide prosperity for all. This is a critical challenge.

The complex and large scale challenges we face, such as climate change and reducing inequality, require consensus building and collaboration on a scale not seen before. So the big question for, the shapers of tomorrow, and one that is raised in our report is: how to proceed? If the goal is to provide all humanity with the means to live a good life on an ecologically flourishing planet, the answer is daunting. That is because it will require nothing less than a radical overhaul of the means by which scarce resources are distributed, and a rethinking of how we create prosperity. Who is involved in this, and what does it mean for us? The answer is that everyone is involved – including governments, regulators, companies and investors. The good news is that we already have the basis for a plan.

The 17 Sustainable Goals

It arrived in 2015 with the launch of the UN's Sustainable Development Goals, which set out 17 targets for countries to achieve by 2030. These span social, environmental and economic issues, and they are aimed at nation states, but implicit in the targets is the close involvement and commitment of business.

The SDGs form the basis for activity by both government and the private sector, and Governments are reporting on their progress towards the SDGs through Voluntary National Reviews, supported by finance professionals in National Audit Offices and Supreme Audit

Institutions, presented to the UN and connected to a follow-up and review process.

As the SDGs, and the network of issues that they include, become better understood, new solutions are emerging which show how business, finance and governments can help achieve them. There is a growing movement across business, finance and government to recognise interdependencies, to move beyond linear thinking, to appreciate networks and to build alliances which can find ways of changing the world by making positive social and environmental impacts.

The global economy is entering a new stage where social and environmental issues are part of all activities undertaken by business. Increasingly, business leaders recognise that their level of engagement with these questions will determine the quality of life for people everywhere, as well as the survival of other species, and the biodiversity which sustains all life on the planet.

This report doesn't shirk from saying that the challenges are immense, complex and urgent. But it also shows how sustainable value creation can be realised with existing tools and processes that build on established foundations. They demand a shift in values and mindset by business, and a new set of skills for finance teams.

Four areas where Businesses can make a Difference

We conclude by outlining **four** areas where businesses and business leaders can make this difference.

- Better scientific literacy for business, particularly on climate risk and environmental issues and how they relate to value creation. Investment in these skills for finance professionals has become an absolute must
- Precision, resources and resolve to understand and explain impacts. It is only by balancing risks against their effects that we can radically shift business ecosystems into social and environmental value creation.
- Better collaboration: people-to-people and working in networks. Nurturing softer skills that complement new technical abilities.
- Recognising the connections which create social and environmental value, beginning with a socially just transition to a low-carbon economy. That calls for companies which are guided by a moral compass, motivated by a purpose that serves the public interest, delivering high-quality livelihoods for all. That requires empathy, fairness and compassion from business.

That gives us a start, and we can't begin on the work soon enough. In terms of resilience and creating meaningful sustainable prosperity for future generations, we must begin to act and implement and bring our skills to bear on these challenging issues. I believe we have the ingenuity, the know-how, and most important of all, the will, to get it done.

** Mr. Robert Stenhouse, President, Association of Chartered Certified Accountants (ACCA), UK's 'Theme Address' at the recently held special workshop on "Social and Environmental Value Creation" along with the release of Global Report on "Tomorrow's Capitalism: Social & Environmental Value Creation", by him on September 24, 2019, in New Delhi. He is also, Director, National Accounting and Audit at Deloitte, UK.*