



Master's in Accounting

Sustainability, Accountability and Ethics

Rita Fuentes Henriques

Pedro de Almeida Fernandes (pafernandes@iseg.ulisboa.pt)

School Year 2025/2026 – 1 S

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Ice-Breaking Exercise



2



Assessment

In the **regular season**, the final grade results from the weighting of the following items:

- Financial and non-financial reports analysis (20%) – “Group Work 1”;
- Non-financial reports analysis (20%) – “Group Work 1”;
- Ethical scenarios discussion (10%) “Group Work 2”;
- Final Test (50%) – last class.



In the **re-sit season** and **special season**, the final grade results from the weighting of the following items:

- Written exam (100%).



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Bibliography

Accountability, Ethics and Sustainability of Organizations - New Theories, Strategies and Tools for Survival and Growth

Editors: **Brunelli, Sandro, Di Carlo, Emiliano** (Eds.)

2020

Sustainability Accounting and Accountability

Editors: **Bebbington, Jan, Unerman, Jeffrey, O'Dwyner, Brendan** (Eds.)

Routledge Ed.

3rd edition

2021

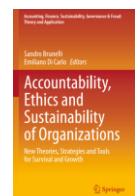
Book

Sustainability Accounting and Accountability

By **Matias Laine, Helen Tregidga**

Edition 4th Edition

First Published 2025



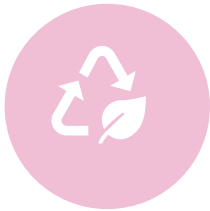
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Agenda



ACCOUNTABILITY AND
SUSTAINABILITY



FINANCIAL REPORTING
NON-FINANCIAL REPORTING



ETHICS



RESEARCH
TOPICS



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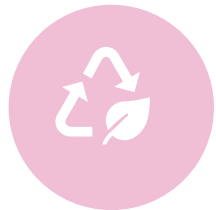
Sustainability, Accountability and Ethics

Rita Fuentes Henriques
Pedro de Almeida Fernandes

Class 1

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Agenda



ACCOUNTABILITY AND
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FINANCIAL REPORTING
NON-FINANCIAL REPORTING



ETHICS



RESEARCH
TOPICS



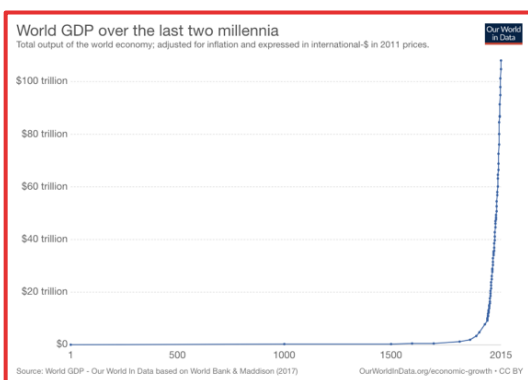
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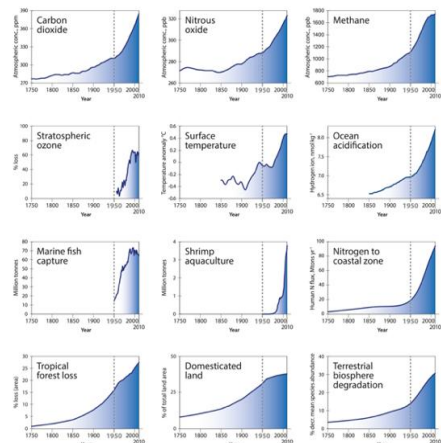
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Exponential growth in GDP has led to exponential growth of the human impact



Earth system trends



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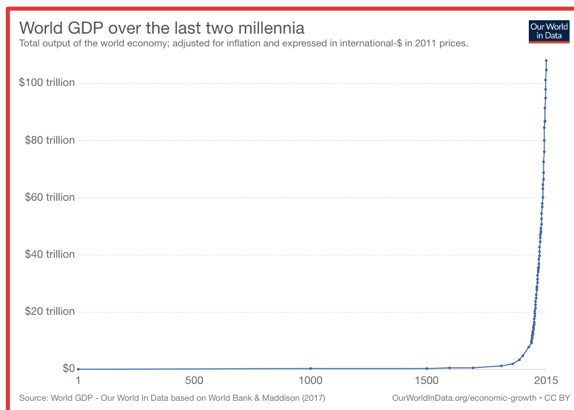
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W. Steffen, W. Broadgate, L. Deutsch, O. Gaffney and C. Ludwig (2015), The Trajectory of the Anthropocene: the Great Acceleration, The Anthropocene Review

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The exponential growth of human impact has influenced the environmental balance with physical and financial losses



- Between 2000 and 2016, climate-related disasters worldwide annually increased by 46% while economic losses resulting from extreme weather events worldwide increased by 86% between 2007 and 2016 (EUR 117 billion in 2016)". European Commission (2018)



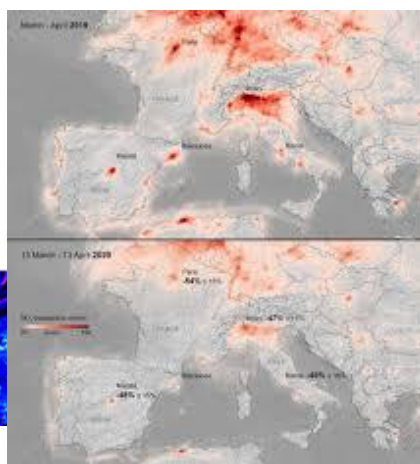
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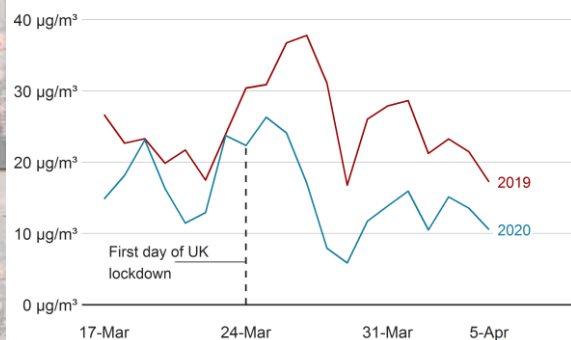
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During COVID19 lockdown...



Air pollution in the UK has fallen compared with last year

Average daily nitrogen dioxide (NO₂) readings



µg/m³ = micrograms per cubic metre

Source: Defra

BBC



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Global risks according to WEF

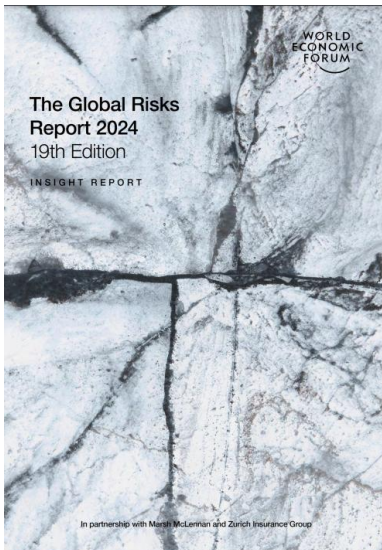
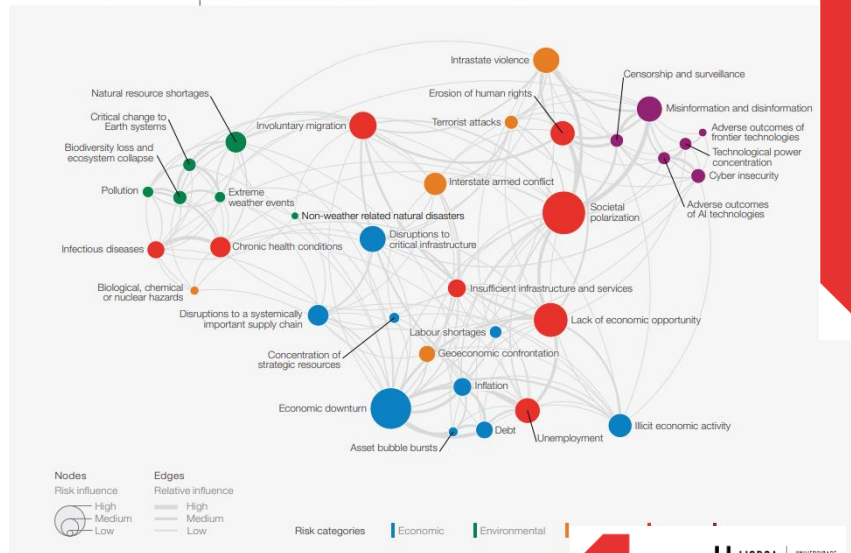


FIGURE 1.7 | **Global risks landscape: an interconnections map**



<https://www.weforum.org/publications/global-risks-report-2024/>

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How does all this relate to companies?



<https://www.youtube.com/watch?v=sq-yph0QSK4>

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What is Accountability?

Let's do some brainstorming on this concept!

Please, go to: www.menti.com



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What Is Accountability?

Accountability is an acceptance of responsibility for honest and ethical conduct towards others. In the corporate world, a company's accountability extends to its shareholders, employees, and the wider community in which it operates. In a wider sense, accountability implies a willingness to be judged on performance.



Accountability has become an **essential concept in corporate finance**. It is particularly relevant to the accounting practices that a company adopts when it prepares the financial reports that are submitted to shareholders and the government.



However, in recent years corporate accountability has come to encompass the company's activities as they affect the community. A company's environmental impact, its investment decisions, and its treatment of its own employees all have come under public scrutiny.



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The origins of sustainability

Hans Carl von Carlowitz (1645–1714) is considered to be the founder of the sustainability principle. In his work “*Sylvicultura oeconomica*” from 1713, he demanded, due to the crisis in raw materials (wood), that one should only lumber so many trees as can be grown by reforestation and planting. This was the demand of ‘sustainable’ usage and sustainable forest management.

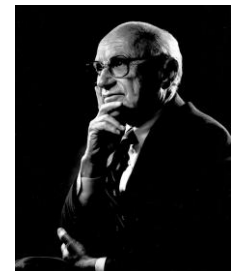


The contemporary terms of sustainability and sustainable development were coined in the early 1970s. The foundation of the definition of sustainability is the Brundtland report according to which **sustainable development is that development which “...meets the needs of the present without compromising the ability of future generations to meet their own needs”**.



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Profit: a limited vision



Milton Friedman (1970) wrote that “The social responsibility of business is to increase its profits”. This attitude has resulted in the focus on profit and profitability, neglecting the way profit is generated as well as neglecting the consequences of such perspective focus.

Focus on financial value and financial goal is a predominantly short-time and a very narrow understanding of business fundamentals. It ignores the ways of achieving it and all the consequences for people and the planet.



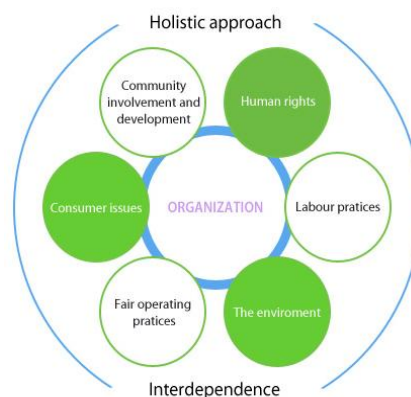
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From profitability toward sustainability

Business sustainability is often defined as the triple bottom line management, a process in which companies manage their **financial**, **social**, and **environmental** risks, threats, and opportunities.

These three impacts are often called “Profit, People, and the Planet” or **3P** (Elkington, 1994). The concept of Corporate Social Responsibility (CSR) is being increasingly replaced by another concept, **Holistic Corporate Responsibility (HCR)**.

From a reductionist focus on profit, toward a holistic perspective and a balance between economic, social, and ecological aspects of company's business accountability.



Szekely N, vom Brocke J. (2017), What can we learn from corporate sustainability reporting? Deriving propositions for research and practice from over 9,500 corporate sustainability reports published between 1999 and 2015 using topic modelling technique, 12(4). DOI: 10.1371/journal.pone.0174807



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New concepts: social accounting

- Identification and recording of an entity's activities in terms of social responsibility.
- Method by which the entity seeks to place a value (positive or negative) on the impact its activities produce on people, on the environment, and on society as a whole.
- Means of documenting an entity's achievements and building a historical record of its activities.
- Records the social performance of the entity for a subsequent evaluation of it.



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New concepts: social auditing

- Evaluating, reporting and improving an organization's behaviour and its effects on society.
- Produce a measure of the social responsibility of an organization.
- Takes into account any internal code of conduct as well as the views of all stakeholders and draws on best practices.
- Requires an organization to identify what it is seeking to achieve, who the stakeholders are, and how it wants to measure performance.
- Provides an assessment of the impact of an organization's nonfinancial objectives.

| FINANCIAL AUDIT | SOCIAL AUDIT |
|--|--|
| Performance data are collected by management/employees | Performance data are collected through interviews, observations/ and focus groups |
| Independent/external audit team reviews the data | Independent/external audit team reviews the data |
| Auditor/team issues a statement on whether the data are a fair presentation of the affairs of the business | Audit team submits a report on whether the data reflect the goal(s) of the project |
| Financial accounts | Social Audit accounts |
| Shareholders | Stakeholders |



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Sustainability Approaches

Stakeholder theory

Contingency approach – effective organizations must tailor their planning, organizing, leading, and controlling to their particular circumstances. The ability to adapt to external pressures and changes leverage the potential for learning.

Legitimacy theory (firms have to conform to societal norms in order to prosper)

Agency theory focuses on explaining the motivations and actions of both agents (i.e., managers) and principals (i.e., investors).

Others: Resource-based view, institutional theory



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Stakeholder theory (Freeman, 1984)

Dominant paradigm of corporate social responsibility and sustainability.

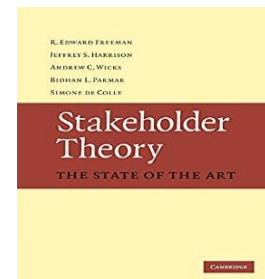
The company should aim to satisfy the interests and needs of its stakeholders, as opposed to merely focusing on maximizing profit for the owners.

Companies need to create value for its owners, employees, customers, suppliers, creditors, and the wider community, balancing their demands in decision-making and defining priorities.

Freeman advocates the ethical principle (corporate responsibility implies responsibility to all stakeholders).

To Freeman, stakeholders are individuals and groups affected by, or affecting, directly or indirectly, policies, activities, and decisions of the company.

Therefore, a company should not be viewed solely as an instrument of the owner, but as an organizational unity with influence on several groups that should function in symbiosis with one another.



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Accountability principles (AA1000 Stakeholder Engagement Standard)



Inclusion principle:
stakeholder participation in
the development and
implementation of a strategic
and responsible response in
relation to sustainability.



Relevance principle:
determining relevance is
necessary to ensure balanced
information that influences the
decisions of the organization
and its stakeholders.



**Accountability and
transparency**



Responsibility principle: an
organization must respond to
the concerns of **stakeholders**
that affect its sustainable
performance. Stakeholders
participate in the development
of responses.



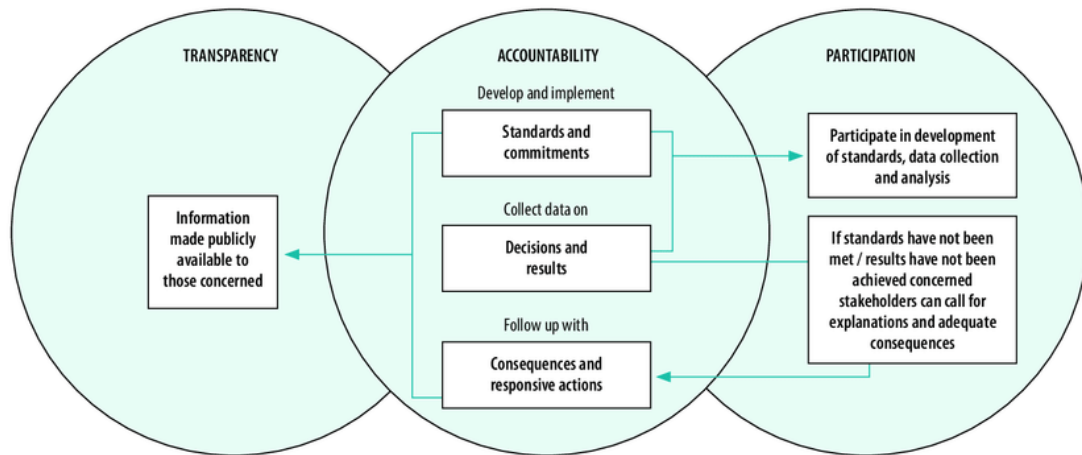
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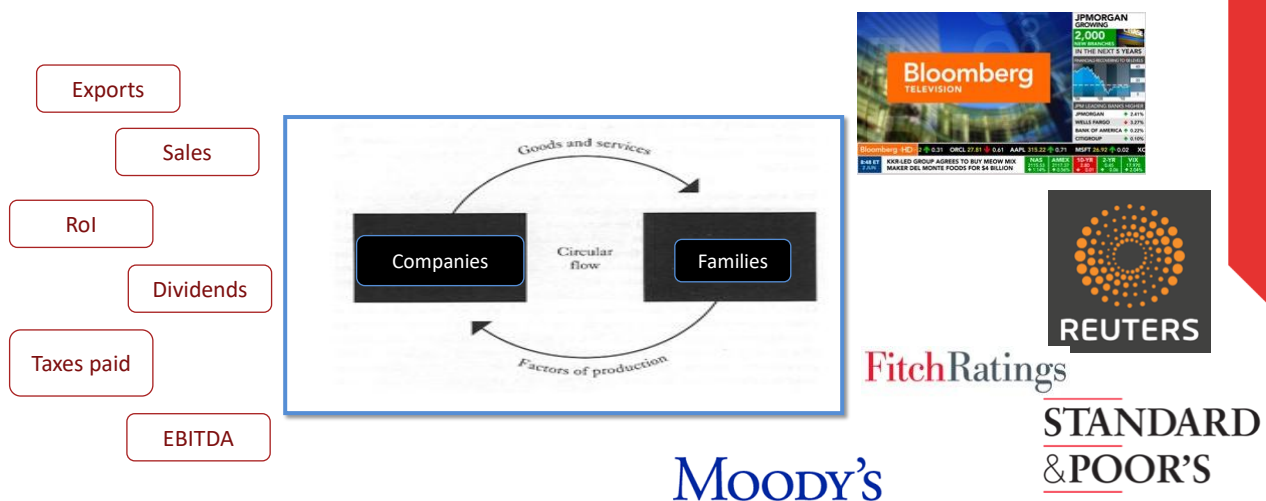
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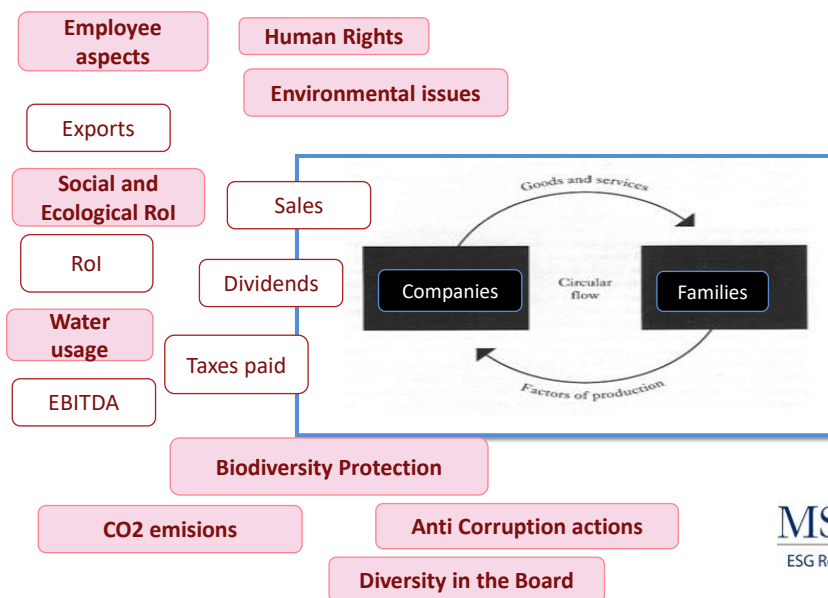
Accountability and transparency



Traditional performance measures



New performance measures



SUSTAINALYTICS
Winner of 2013 IRRI Award for
Best RI Analysis Firm
Thomson Reuters Eintel

ESG ANALYTIC

EIRIS Empowering
Responsible
Investment



GMI RATINGS
Discover Key Measures of Value

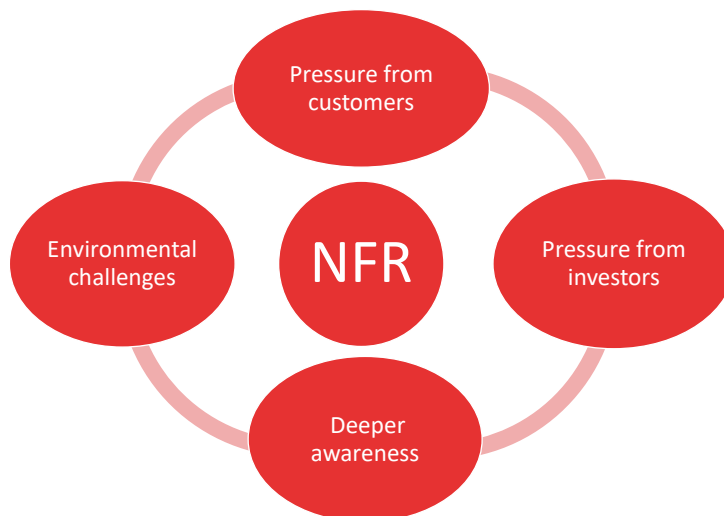
MSCI
ESG Research



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Why sustainability reporting?



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Sustainability Reporting

WBCSD defines the sustainability report as:

"... reports on sustainable development (produced by companies) as publications for internal and external shareholders in order to disclose corporate positions and activities on the economic, environmental and social fronts. In short, the purpose of these reports is to show the contribution of companies to sustainable development."

Business performance is viewed as a function of balance between economic, social, and ecological aspects of business activity.



The ultimate goal is to balance on all sides



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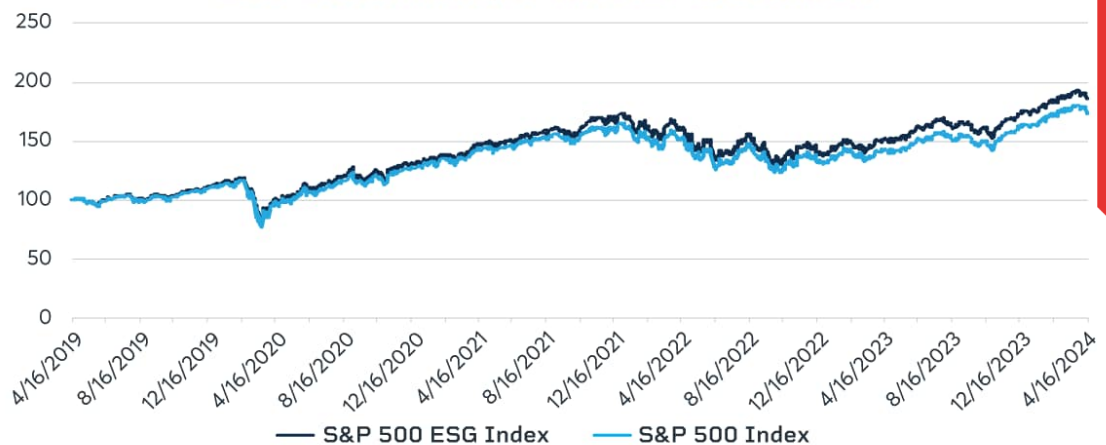
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Sustainability and Performance

**Five-Year Performance of the
S&P ESG Index vs. the S&P 500 Index**



Source: S&P Dow Jones Indices LLC. Data as of 1 May, 2024.



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Sustainability and Performance

Flow-Driven ESG Returns*

Philippe van der Beek¹

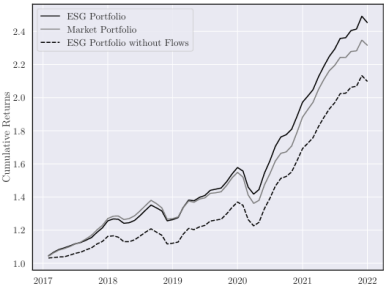
November 17, 2023

Abstract

I show that the recent returns to ESG investing are strongly driven by price impact from flows towards ESG funds. Using data on institutional trades, I estimate the market's ability to accommodate the demand of ESG funds, which is given by the elasticity of substitution between ESG and other stocks. I show that every dollar flowing towards ESG stocks increases their aggregate market value by \$0.7. Using a novel measure of total ESG flows, I estimate an annual flow-driven ESG return of 2.07%. In the absence of flows, ESG funds would have not outperformed the market from 2017 to 2022.

Figure 2: Cumulative ESG Returns without Flow-Driven Price Pressure

The figure plots the cumulative return to the ESG portfolio w_t^{ESG} , the market portfolio w_t^{MF} , and the cumulative ESG return in the absence of price pressure from total ESG flows F_{t+1}^{ESG} . The portfolios are rebalanced quarterly based on the funds' SEC filings.



Podcast <https://open.spotify.com/episode/4XAzULF1UStxiz3VNu8Wwl?si=3-DPBuvEXRON5D1sfrSgew>



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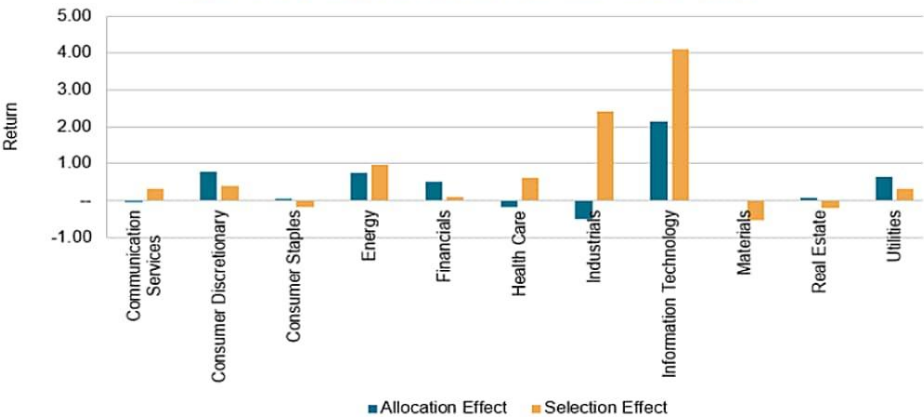
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Sustainability and Performance

Five-Year Performance Attribution of the S&P 500 ESG Index vs. the S&P 500



Source: S&P Dow Jones Indices LLC. Data from Jan 29, 2019 to Jan 26, 2024.



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Sustainability and Performance

- The S&P 500 ESG Index continues to be refined to reflect the sentiments of a sustainability-minded investor. The updates to exclusions and eligibility requirements reflect the growing need for index providers to properly account for companies' business activities, which ultimately ensures ESG investors can accurately assess the behavior of those companies within the index.
- At this year's rebalance, which occurred on May 1, Amazon and Netflix were among the biggest names moved out, while Exxon Mobil Corp and Costco Wholesale Corp were added in. This year, 57 stocks were added and 47 removed, bringing the total number of components in the rebalanced index to 324, up from 314 in 2023.



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What is in the agendas? – Group Work in Class

1. What is the European Green Deal and what are its objectives?
2. What is the Paris Agreement and what are its objectives?
3. What is EU Directive 2022/2464 ?
4. What is EU Directive 2024/1760?
5. What is the Omnibus Package?



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Firms ignoring climate crisis will go bankrupt, says Mark Carney

Bank of England governor warns of financial collapse linked to climate emergency

The Guardian, 13/10/2019



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Sustainability studies – 3 research lines

Research Line 1: Valuation relevance of corporate environmental performance information and has found that such information is valuable to investors seeking to assess environmental liabilities in different settings.

Research Line 2: Factors affecting managerial decisions to disclose potential environmental liabilities. This group of studies finds that there are strategic factors affecting firms' decisions to disclose environmental liability information, especially when disclosures are discretionary.

Research Line 3: Relation between environmental disclosures and environmental or economical performance.



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Some research questions



- i. What are the motivations and benefits for companies and for whom do they publish sustainability reports?
- i. What are the determinants for NFR? Are size of the organization, level of profitability, or gender diversity on the board determinants?
- i. What are the barriers for NFR?
- i. Is there any relationship between NFR and firm visibility/legitimacy?

Motivation for NFR / CSR

Firms disclose for two main reasons (Moser et al, 2012):

- (1) to conform to societal expectations and thereby ensure continued access to resources, such as capital, customer support (Legitimacy theory);
- (2) to provide additional information that allows capital market participants to more accurately assess firms' financial prospects and risk profiles, potentially leading to higher share prices and higher firm values (Agency theory).

Motivation for NFR / CSR

Other motivations (Kramer, 2006):

- a new level of consciousness;
- growing and visible pressure of the environment;
- avoid material risks (including the risk to reputation);
- new opportunities of value creation to ensure permanent business;
- distinguish themselves from less responsible companies.

Visionary entrepreneurs with social responsibility as their foundation (Baron, 2014).

Benefits of NFR/CSR

- ✓ **Cost and risk reduction** – compliance with environmental legislation and positive relationships with the community reduce risks and costs (Berman *et al.*, 1999).
- ✓ **Competitive Advantage** - increased consumer loyalty is often the result of the adoption of NFR (Pivato *et al.*, 2008). Socially responsible companies attract more investment (Smith *et al.*, 2005). Business commitment to stakeholder requirements creates competitive advantage (Kurucz *et al.*, 2008).
- ✓ **Reputation Development** – to be more socially responsible attracts investors, consumers and workers (Smith, 2003, Brammer and Pavelin, 2004).
- ✓ **Value creation** - the involvement of all related parties allows greater financial performance (Carroll and Shabana, 2010).

Determinants of NFR/CSR

Studies indicate that **firm size**, **growth opportunities**, **profitability**, **gender diversity** on the board, or the **assurance** of nonfinancial reports positively correlate with the adoption of integrated reporting (Reimsbach et al, 2018).

Several **country-level determinants**, such the legal system, value system, and the intensity of market coordination, have been considered as potential determinants (Reimsbach et al, 2018).

Factors that influence sustainability reporting are **corporate characteristics**, general context factors, country-specific impact factors, and internal factors (Pütter, 2017).

In a comprehensive research study on sustainability reporting in European countries, economic development, globalization level, civil society, **cultural differences**, and regional patterns are examined as the determinants of sustainability reporting (Horváth et al., 2017).

Prior regulation, **local institutional characteristics**, **ownership**, **industry**, and auditors have an impact on the quality of disclosures. On the contrary, pressures from the community or society at large are not yet a determinant institutional factor (Dumitru et al., 2017).

Type of industry, the size of the company and profitability are determinants, whereas leverage is not (Kilic et al., 2017)



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The Barriers (Osmanagić, 2016)

- the fear that sustainable business practice will increase business costs in relation to competition;
- difficulties devising useful KPIs, targets, measures, and controls to entrench sustainability in the organization;
- problems aligning social and environmental efforts with financial ones.



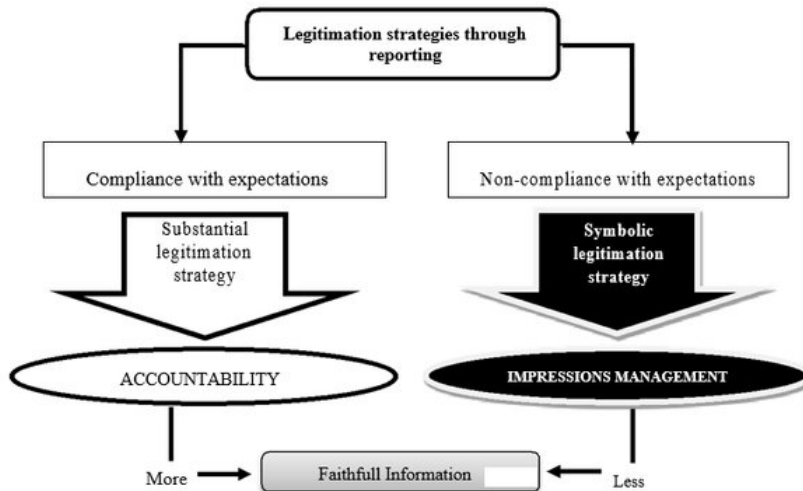
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Sustainability and Legitimization



Khelil-Rhouma, Z. *et al.* (2020)

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Sustainability Packaging



Hallez, L., Spruyt, B., Boen, F. and Smits, T. (2024), "How consumers value sustainable packaging: an experimental test combining packaging material, claim and price", *British Food Journal*, Vol. 126 No. 9, pp. 3566–3583, doi: 10.1108/BFJ-01-2024-0069.

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Class 2

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Agenda



ACCOUNTABILITY AND
SUSTAINABILITY



FINANCIAL REPORTING
NON-FINANCIAL REPORTING



ETHICS



RESEARCH
TOPICS



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How financial reporting drives accountability? (...and vice versa)

- Agent versus principal
- Auditing (accurate view of the company's financial health)
- Dialogue investors – management (channels of communication)
- Curb possible errors
- Safeguard legitimacy and maintain autonomy
- Improve governance (reduces the chances of corporate mischief)
- Strengthen a company's performance
- Improve the quality of financial reporting



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What do investors look for in the financial statements?

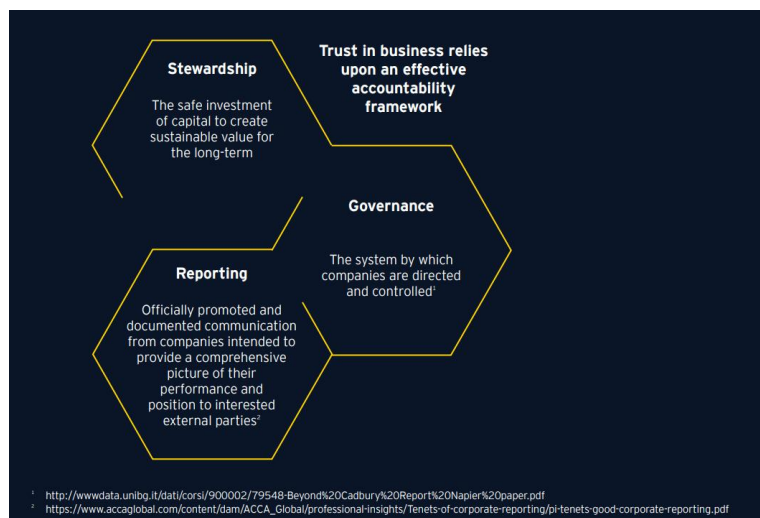
- Current and forecasted revenue
- Financial performance
- Long-term thinking
- Business cost drivers
- Growth opportunities
- Dividend history
- Profit margins
- Risk
- Cash



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Accountability and Reporting

- ✓ Deeper dialogue between business, investors and society
- ✓ Role of auditing and assurance



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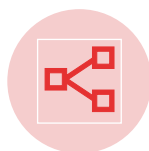
Financial statements



Financial statements are critical pieces of information about a company's ability to generate revenue/profit.



How is the company managed?



How stable is the company?



How effective is the use of invested capital?



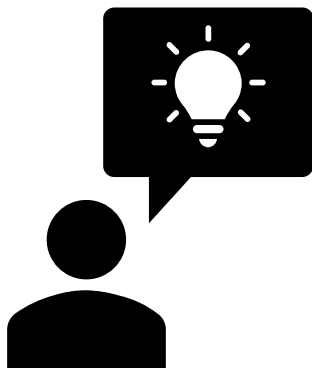
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What can be drawn from the financial statements?



1. Is purchasing this stock a good idea?

- If you're considering investing in as an individual or on behalf of your current organization, financial reporting analysis can give you some data that will help you make your decision.
- This is also one way you can gain insight into whether a company is potentially under or overpriced in the stock market.

What can be drawn from the financial statements?

2. Are we profitable? Will we be in the future?

This is crucial information.

3. How much cash 'runway' do we currently possess?

Cash is oxygen to a business

Some companies, [like Apple](#), like to sit on colossal amounts of cash.



What can be drawn from the financial statements?

4. Do we have the capital to invest in new lines of business?

- Other companies prefer to invest their money, sometimes in a long-term basis. For instance, Intel upgrade their factories and equipment on a regular basis.



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“In a perfect world, investors, board members, and executives would have full confidence in companies’ financial statements... Unfortunately, that’s not what happens in the real world, for several reasons.”

Sherman and Young (2016). Where Financial Reporting Still Falls Short, Harvard Business Review.



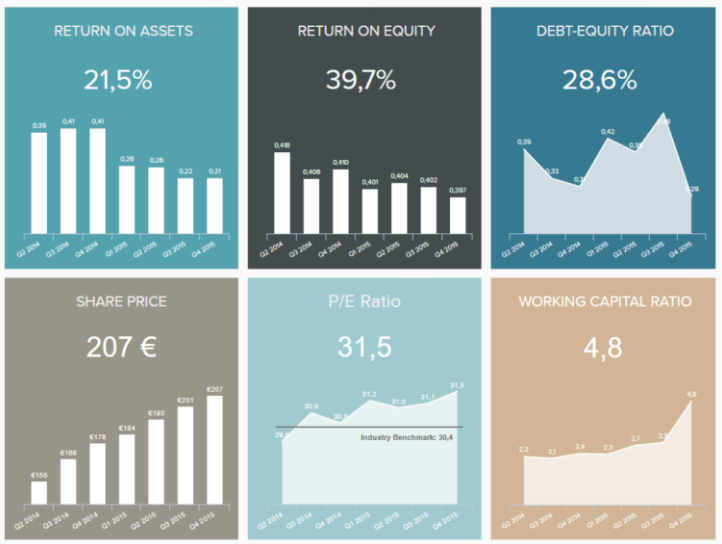
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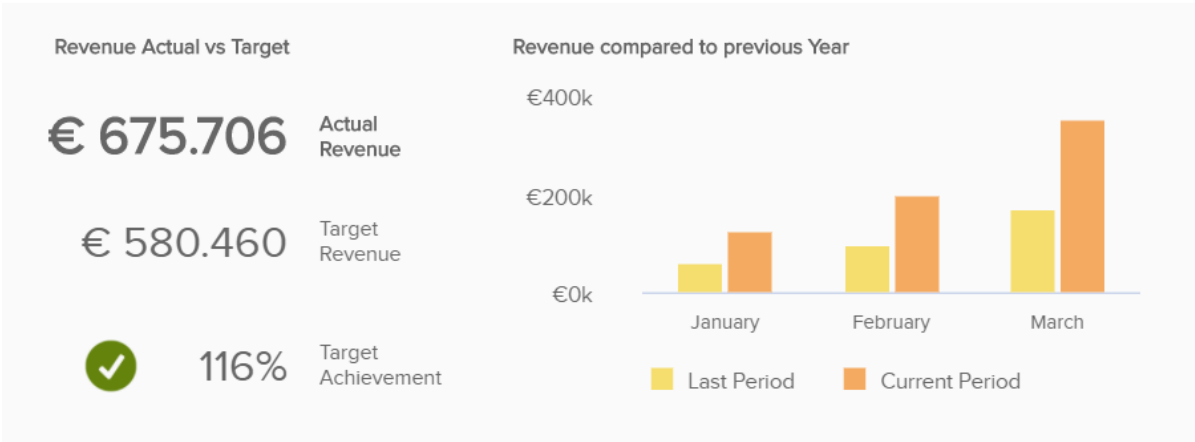
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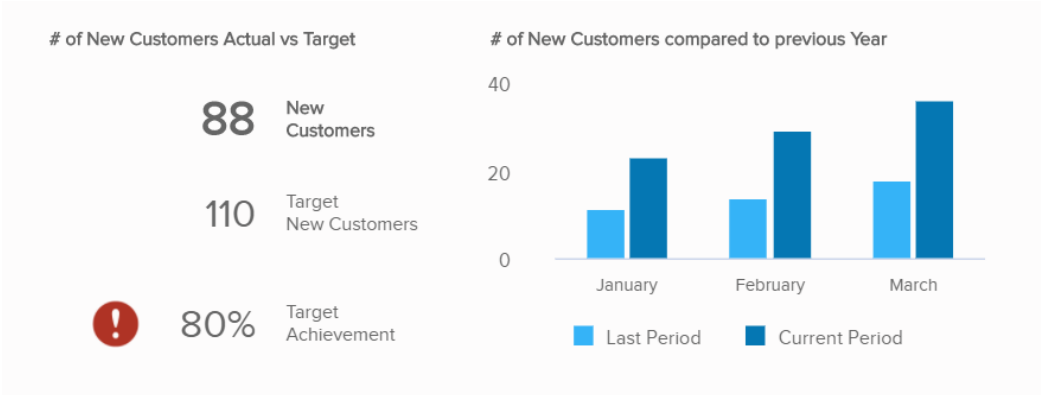
Investor dashboards



Revenue and customer overview

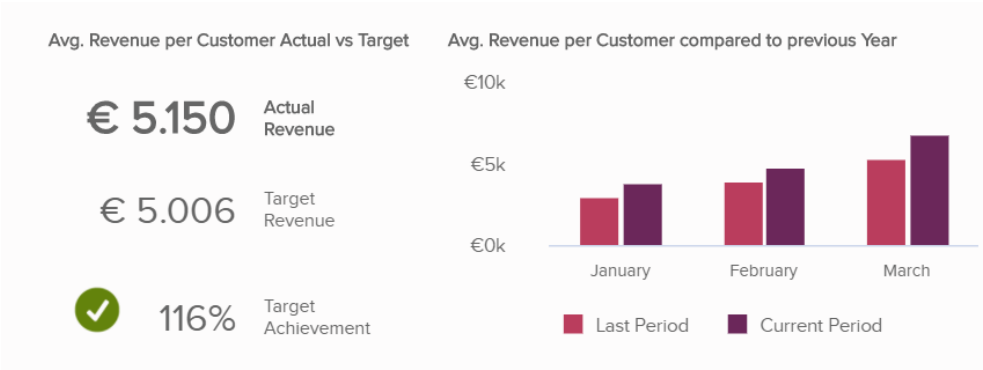


Revenue and customer overview

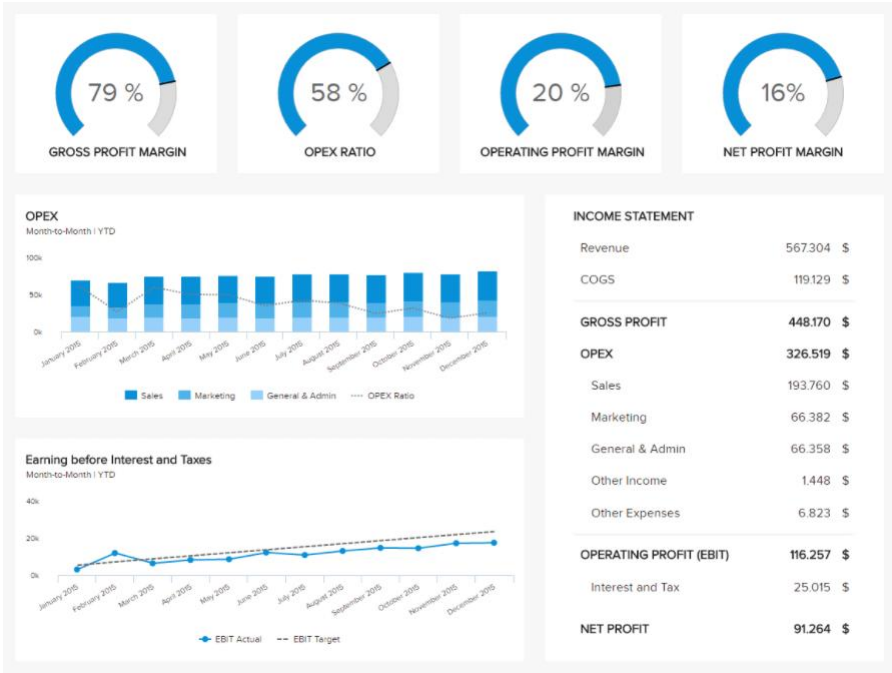


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Revenue and customer overview

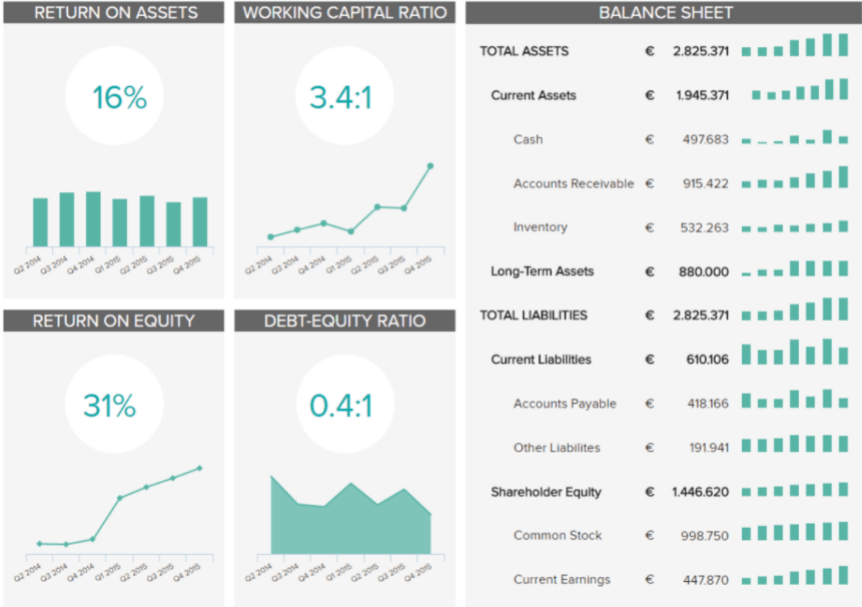


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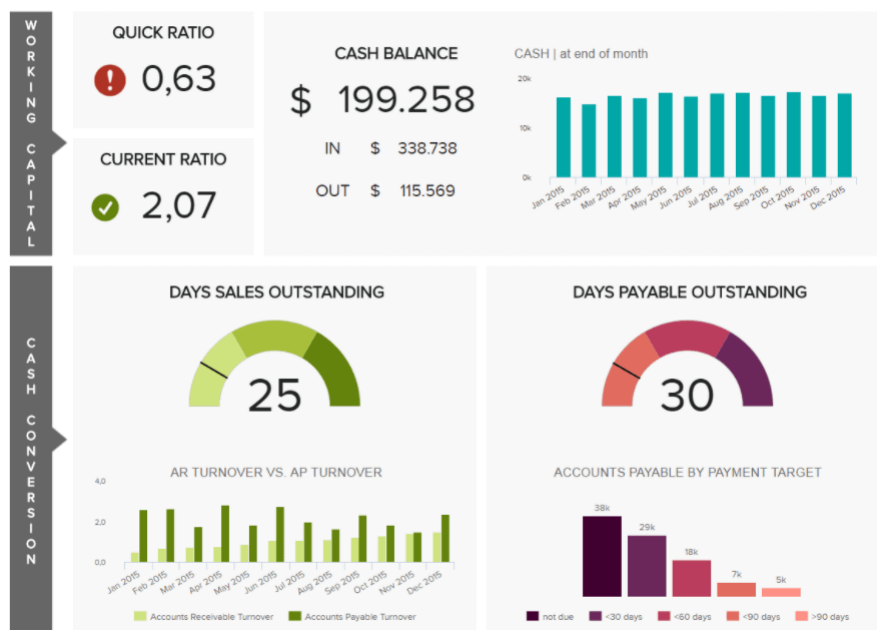
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FINANCIAL PERFORMANCE DASHBOARD



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CASH DASHBOARD | last year



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Financial statements

Financial collecting, organizing, and presenting financial information

There are three primary financial accounting statements prepared according to accounting standards:

the balance sheet

the income or profit and loss (P&L) statement

the statement of cash flows

Two prevailing systems of accounting standards:

Generally Accepted Accounting Principles (GAAP)

International Financial Reporting Standards (IFRS)

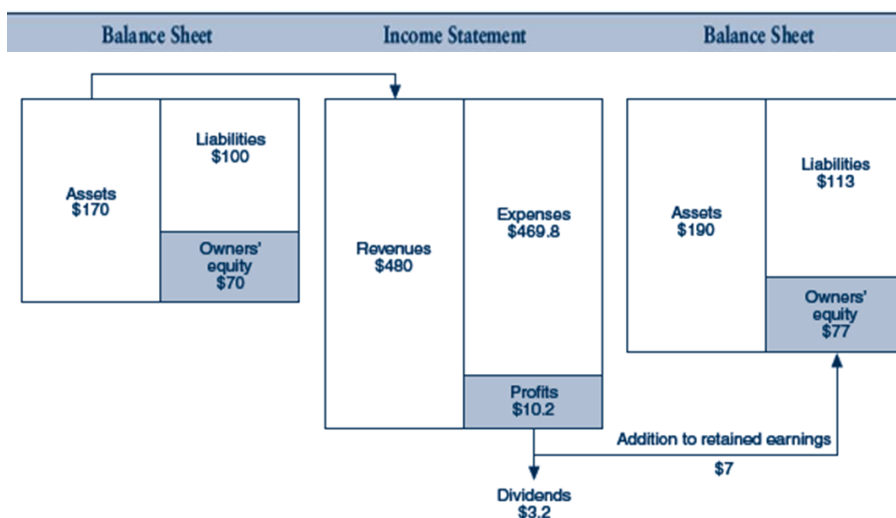
60

Accounting principles

Two basic principles of accrual accounting:

- **Realization principle:** a revenue is recorded when the transaction takes place, not when the cash is received
- **Matching principle:** an expense associated with a revenue is recognized along with the revenue, not when paid

Reconciling financial statements



| The Managerial Balance Sheet | | The Standard Balance Sheet | |
|---|--|---|--|
| Invested Capital | Capital Employed | Assets | Liabilities and Owners' Equity |
| Cash | Short-term debt | Cash | Short-term debt |
| Working capital requirement (WCR) <i>Operating assets less Operating liabilities</i> | Long-term financing <i>Long-term debt plus Owners' equity</i> | Operating assets <i>Accounts receivable plus Inventories plus Prepaid expenses</i> | Operating liabilities <i>Accounts payable plus Accrued expenses</i> |
| Net fixed assets | | Net fixed assets | Long-term financing <i>Long-term debt plus Owners' equity</i> |

The managerial statement of financial position



The 3 financial cycles & Financing strategy



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THE MANAGERIAL BALANCE SHEET

INVESTED CAPITAL:

- CASH AND CASH-EQUIVALENT ASSETS
- INVESTMENT IN FIXED ASSETS
- WORKING CAPITAL REQUIREMENT

$$\begin{aligned}
 &\text{Working capital requirement (WCR)} \\
 &= \\
 &[\text{Operating assets}] - [\text{Operating liabilities}] \\
 &= \\
 &[\text{Accounts receivable} + \text{Inventories} + \text{Prepaid expenses}] \\
 &\quad - [\text{Accounts payable} + \text{Accrued expenses}]
 \end{aligned}
 \tag{3.3}$$



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THE MANAGERIAL BALANCE SHEET

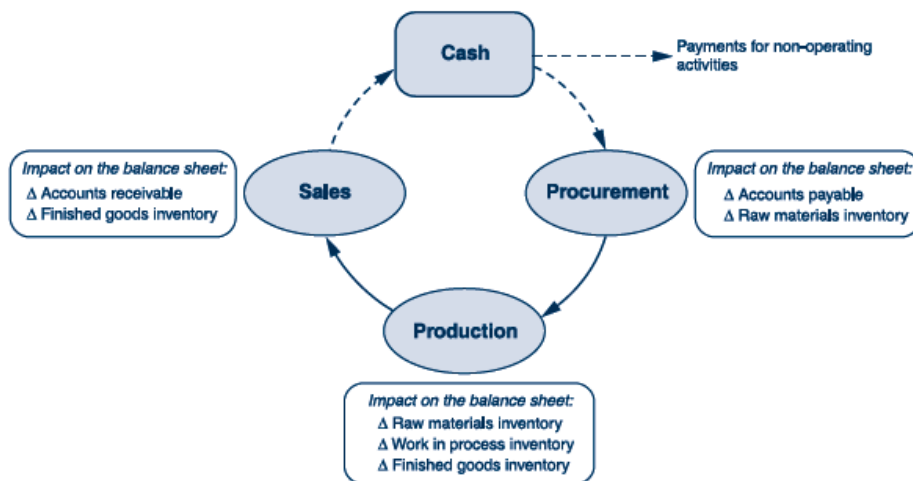
CAPITAL EMPLOYED:

- SHORT-TERM DEBT
- LONG-TERM FINANCING
 - LONG-TERM DEBT
- OWNERS' EQUITY

THE MANAGERIAL BALANCE SHEET WC REQUIREMENT

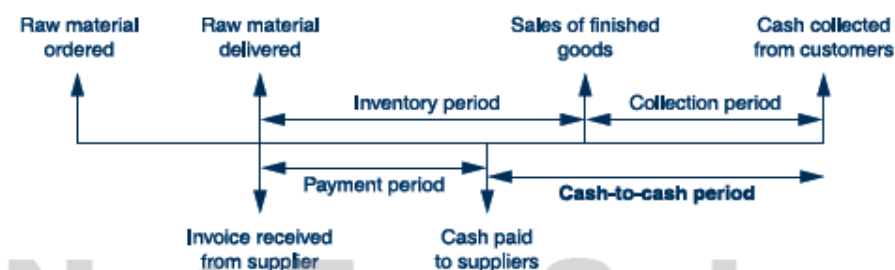
EXHIBIT 3.3 THE FIRM'S OPERATING CYCLE AND ITS EFFECT ON THE FIRM'S BALANCE SHEET.

Δ = CHANGE IN THE BALANCE SHEET ACCOUNT



THE MANAGERIAL BALANCE SHEET WC REQUIREMENT

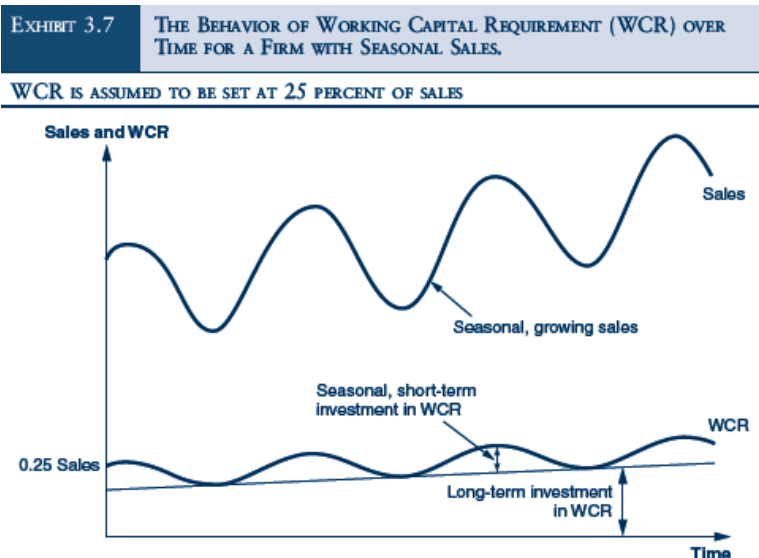
EXHIBIT 3.4 THE FIRM'S OPERATING CYCLE, SHOWING THE CASH-TO-CASH PERIOD.



The matching strategy

- According to the matching strategy, long-term (short-term) investments should be financed by long-term (short-term) funds
- A firm willing to take on some risk by having long-term investments funded short term will be exposed to **higher risks**
- A risk-averse firm should carry more long-term funds than necessary to finance its long-term investments
- The matching strategy is not necessarily the *optimal* strategy

The matching strategy



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The matching strategy

The WCR of a firm with *seasonal* sales has a *long-term growth* (permanent WCR) component and a *short-term seasonal* component. According to the matching strategy, the permanent component should be financed with long-term funds and the seasonal component with short-term funds.

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THE EFFECT OF SALES GROWTH

- Higher sales will require additional investments in the firm's operating cycle because the firm will need more receivables, more inventories and more payables to support its additional sales
- Working capital requirement and sales have a direct relation
- The working capital requirement increases with inflation

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Traditional measures of liquidity

■ THE CURRENT RATIO

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

■ THE ACID TEST OR QUICK RATIO

$$\text{Acid test or quick ratio} = \frac{\text{Cash} + \text{Accounts receivable}}{\text{Current liabilities}}$$

- Note that these ratios emphasize a *liquidation view* of the firm as opposed to a *going-concern approach*



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Measures of liquidity based on the WCR

- **Net Long-Term Financing**

$$\text{Net long-term financing} = \text{Long-term financing} - \text{Net fixed assets}$$

- **Net Short-Term Financing**

$$\text{Net short-term financing} = \text{Short-term debt} - \text{Cash}$$

- **Liquidity Ratio**

$$\begin{aligned} \text{Liquidity ratio} &= \frac{\text{Long-term financing} - \text{Net fixed assets}}{\text{Working capital requirement}} \\ &= \frac{\text{Net long-term financing}}{\text{Working capital requirement}} \end{aligned} \quad (3.6)$$



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Measures of liquidity based on the Cash-flow

- **Cash flow from assets** or **Free cash flow** is the cash flow generated by the firm's assets. It is a measure of the cash flow available to those who finance the firm's activities:

$$\begin{aligned} \text{Free cash flow} &= \text{EBIT}(1 - T_C) + \text{Depreciation expense} - \Delta \text{WCR} \\ &\quad - \text{Net capital expenditure} \end{aligned} \quad (4.5)$$



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Improving liquidity through a better management of the operating cycle

- A firm's liquidity will improve when:
long-term financing increases, and/or
net fixed assets decrease and/or
WCR decreases
- The factors affecting WCR:
 - the nature of the **economic sector**
 - the **efficiency** with which the operating cycle is managed
 - the level and growth of **sales**

MEASURING MANAGERIAL EFFICIENCY

• INVENTORY TURNOVER

$$\text{Inventory turnover} = \frac{\text{Cost of goods sold}}{\text{Ending inventories}}$$

The *higher* the inventory turnover, the *lower* the firm's investment in inventories, and the *lower* the working capital requirement

MEASURING MANAGERIAL EFFICIENCY

- AVERAGE COLLECTION PERIOD¹

$$\text{Average collection period} = \frac{\text{Accounts receivable}_{\text{end}}}{\text{Average daily sales}}$$

The *shorter* the average collection period, the *lower* the firm's investment in receivables, and the *lower* the working capital requirement

¹ also called **days of sales outstanding (DOS)** or **average age of accounts receivable**



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MEASURING MANAGERIAL EFFICIENCY

- AVERAGE PAYMENT PERIOD

$$\text{Average payment period} = \frac{\text{Accounts payable}_{\text{end}}}{\text{Average daily purchases}}$$

The *longer* the average payment period, the *higher* the firm's payables, and the *lower* the working capital requirement



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SOLVENCY

- Debt-to-equity = Debt / Equity
- Debt-to-assets = Debt / Assets (*indebtedness ratio*)
- Solvency = (EAT + Depreciation expenses) / Liabilities
- Interest coverage ratio = EBIT / Interest expenses

Note: Solvency and liquidity are both terms that refer to an enterprise's state of financial health, but with some notable differences.

Solvency refers to an enterprise's capacity to meet its long-term financial commitments.

Liquidity refers to an enterprise's ability to pay short-term obligations (ability to sell assets to quickly raise cash)



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Master's in Accounting

Sustainability, Accountability and Ethics

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Class 3

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Agenda



ACCOUNTABILITY AND
SUSTAINABILITY



FINANCIAL REPORTING
NON-FINANCIAL REPORTING



ETHICS



RESEARCH
TOPICS



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Profitability

- Net profit is not a relevant measure of profitability. Higher profits are often accompanied by an increase in size of the balance sheet.
- A larger balance sheet means more capital needed to finance the firm's activities and a lower ratio *profit-to-capital employed*



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MEASURES OF PROFITABILITY

- **Return on sales (ROS)**
EBIT/sales **or** Earnings after tax/sales
- **Return on assets (ROA)**
EBIT/total assets **or** Earnings after tax/ total assets
- **Return on invested capital (ROIC)**
EBIT/invested capital
- **Return on equity (ROE)**
Earnings after tax/owners' equity

ROE is the most comprehensive measure of profitability.



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RETURN ON INVESTED CAPITAL (ROIC)

- ✓ Measure of efficiency in the use of total resources;
- ✓ Operational performance measure;
- ✓ Not sensitive to leverage;
- ✓ Return for all investors (shareholders and creditors);
- ✓ Used for comparison of firms with the same business risk;
- ✓ Used in planning and management control.



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RETURN ON EQUITY (ROE)

- Measures the firm's profitability from the perspective of the owners. Their investment is the firm's equity capital. Their reward is the firm's net profit. ROE is sensitive to leverage.

$$\text{Return on equity (ROE)} = \frac{\text{Earnings after tax (EAT)}}{\text{Owners' equity}} \quad (5.1)$$

RETURN ON EQUITY

PUTTING IT ALL TOGETHER: THE STRUCTURE OF A FIRM'S PROFITABILITY

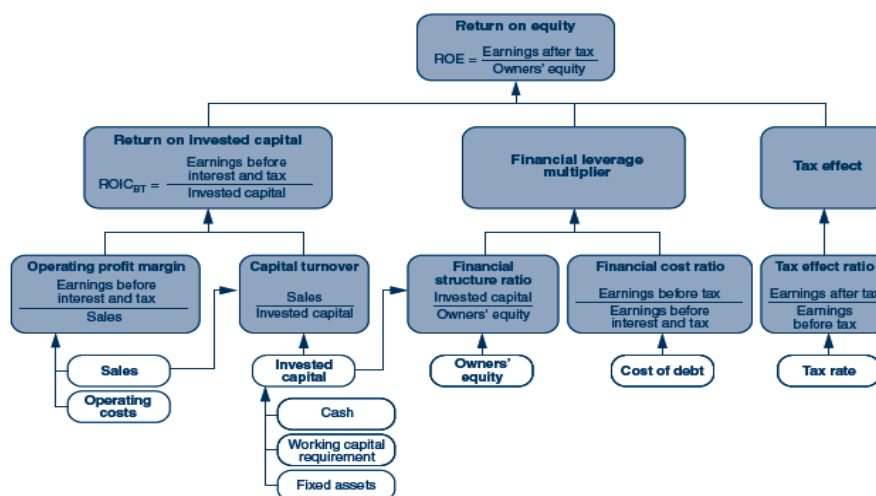
- T**HE **D**RIVERS OF **O**PERATING **P**ROFITABILITY (DuPont Model)

$$\begin{aligned} \text{ROE} &= \frac{\text{EAT}}{\text{Owners' equity}} \\ &= \underbrace{\frac{\text{EBIT}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Invested capital}}}_{\text{Operating profitability}} \times \underbrace{\frac{\text{EBT}}{\text{EBIT}} \times \frac{\text{Invested capital}}{\text{Owners' equity}}}_{\text{Financial leverage multiplier}} \times \underbrace{\frac{\text{EAT}}{\text{EBT}}}_{\text{Tax effect}} \\ &\quad \text{ROIC}_{\text{BT}} \end{aligned}$$

RETURN ON EQUITY

PUTTING IT ALL TOGETHER: THE STRUCTURE OF A FIRM'S PROFITABILITY

EXHIBIT 5.7 THE DRIVERS OF RETURN ON EQUITY.



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RETURN ON EQUITY & INDUSTRY

THE STRUCTURE OF ROE ACROSS INDUSTRIES

| THE STRUCTURE OF RETURN ON EQUITY FOR FIVE FIRMS IN DIFFERENT SECTORS | | | | | | | |
|---|---|--------------------------------------|--|---|--|--------------------------------|--|
| Firm ² | Operating Profit Margin ³ (1) | Capital Turnover ⁴ (2) | Return on Invested Capital ⁵ (3) = (1) × (2) | Financial Leverage Multiplier ⁶ (4) | Pre-Tax Return on Equity ⁷ (5) = (3) × (4) | Tax Effect ⁸ (6) | Return on Equity ⁹ (7) = (5) × (6) |
| 1 | 37.2% | 2.04 | 75.9% | 0.82 | 62.3% | 72.7% | 45.3% |
| 2 | 27.5% | 0.95 | 26.1% | 1.57 | 41.0% | 80.5% | 33.0% |
| 3 | 20.8% | 0.91 | 18.9% | 1.72 | 32.5% | 66.7% | 21.7% |
| 4 | 9.8% | 2.86 | 28.0% | 1.20 | 33.6% | 77.4% | 26.0% |
| 5 | 5.6% | 3.51 | 19.7% | 1.60 | 31.5% | 65.3% | 20.6% |

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FINANCIAL LEVERAGE

- Financial leverage magnifies a firm's business risk

| EFFECT OF FINANCING ON PROFITABILITY FOR DIFFERENT LEVELS OF EBIT. | | | | |
|--|--|-------------------|---|-------------------|
| Alternative Levels of Pre-tax Operating Profit | Profitability of the Firm with 100% Equity Financing | | Profitability of the Firm with 50% Equity Financing | |
| EBIT | ROIC _{BT} | ROE _{BT} | ROIC _{BT} | ROE _{BT} |
| \$14 million | 14% | 14% | 14% | 18% |
| \$10 million | 10% | 10% | 10% | 10% |
| \$8 million | 8% | 8% | 8% | 6% |

- How does financial leverage work?

$$ROE = ROIC_{BT}(1 - T_c) + [ROIC_{BT} - \text{Cost of debt}](1 - T_c) \times \frac{\text{Debt}}{\text{Owners' equity}}$$



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OTHER MEASURES OF PROFITABILITY

- EARNINGS PER SHARE (EPS)

$$\text{Earnings per share (EPS)} = \frac{\text{Earnings after tax}}{\text{Number of shares outstanding}}$$

- THE PRICE-TO-EARNINGS RATIO (P/E)

$$\text{Price-to-earnings ratio (P/E)} = \frac{\text{Share price}}{\text{Earnings per share}}$$

- THE MARKET-TO-BOOK RATIO

$$\text{Market-to-book ratio} = \frac{\text{Share price}}{\text{Book value per share}}$$



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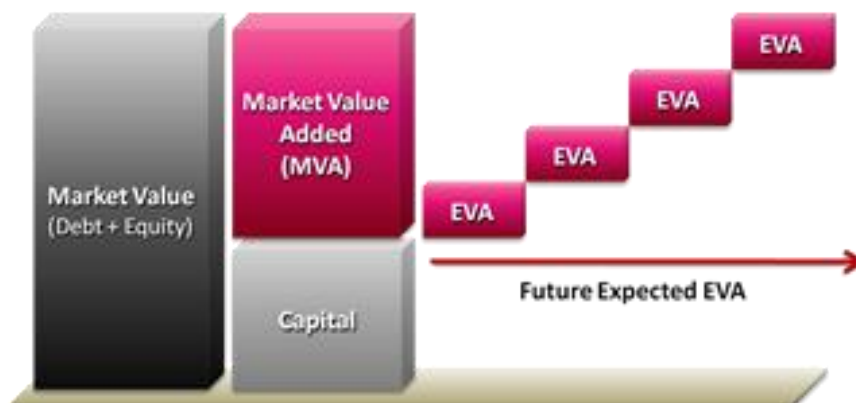
MEASURING VALUE CREATION

- Value is created by a firm if its *market value* (equity plus debt) is higher than its capital employed (capital that equity holders and debt holders have invested). The difference is called **market value added (MVA)**

$$\text{Market value added (MVA)} = \text{Market value of capital} - \text{Capital employed}$$

- MVA measures value creation or destruction **at a particular point in time**. The change in MVA during a period measures value created or destroyed **during that period of time**.

MEASURING VALUE CREATION



MEASURING VALUE CREATION ESTIMATING MARKET VALUE ADDED

ESTIMATING THE MARKET VALUE OF CAPITAL

The market value of capital can be obtained from financial markets for firms whose equity and debt capital are publicly traded and can be estimated for non traded.

ESTIMATING THE AMOUNT OF CAPITAL EMPLOYED

A firm's capital employed is measured from its balance sheet. However, since accounting estimates of capital employed are *biased* by accounting conventions, some adjustments are necessary.



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MEASURING VALUE CREATION INTERPRETING MARKET VALUE ADDED

MAXIMIZING THE MARKET VALUE OF CAPITAL DOES NOT NECESSARILY IMPLY VALUE CREATION

Suppose InfoSoft retains €M15 of profit and borrows €M5 to invest in a €M20 project with a present value of expected EVAs of -€M4. Although its market value has increased, it has destroyed €M4 of value.

▪ Before investment:

Market value (equity plus debt) = €M500

Capital employed = €M380

So that: MVA = €M120

▪ After investment:

Market value (equity plus debt) = €M516

Capital employed = €M400

So that: MVA = €M116



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MEASURING VALUE CREATION INTERPRETING MARKET VALUE ADDED

MVA INCREASES WHEN THE FIRM UNDERTAKES POSITIVE NET PRESENT VALUE PROJECTS

- A investment project NPV is the difference between the present value of its future expected cash flows and the amount of capital spent to finance it.
- The present value of future cash flows is the market value of a firm's capital and the amount of capital invested is the firm's capital employed.
- MVA is thus the sum of NPVs of all the past and current projects the firm has undertaken and is undertaking
- *Saying that a firm has raised (reduced) its MVA is the same as saying that it has invested in positive (negative) NPV projects*



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MEASURING VALUE CREATION A LOOK AT THE EVIDENCE

| Top Value Creators | Market Value of Capital | Capital Employed | Value created (MVA) |
|-------------------------------------|-------------------------|------------------|---------------------|
| 1. Apple Inc. | 506.3 | 135.1 | 371.2 |
| 2. Google Inc. | 330.6 | 49.3 | 281.3 |
| 3. Exxon Mobil | 529.6 | 300.0 | 229.6 |
| 4. Wal-Mart Stores Inc. | 340.5 | 160.3 | 180.2 |
| 5. Johnson & Johnson | 249.3 | 104.2 | 145.1 |
| 6. Procter & Gamble Co. | 277.7 | 133.6 | 144.1 |
| 7. General Electric Co. | 302.0 | 170.4 | 131.6 |
| 8. AT&T Inc. | 356.2 | 267.4 | 88.8 |
| 9. Chevron Corp. | 272.2 | 200.0 | 72.2 |
| 10. Berkshire Hathaway | 292.4 | 221.8 | 70.6 |
| Bottom Value Destroyers | Market Value of Capital | Capital Employed | Value created (MVA) |
| 492. Patterson Companies Inc. | 5.0 | 2.2 | 2.8 |
| 493. Hudson City Bancorp Inc. | 5.0 | 2.6 | 2.4 |
| 494. Flir Systems Inc. | 4.3 | 1.9 | 2.4 |
| 495. First Solar Inc. | 4.1 | 4.2 | -0.1 |
| 496. People's United Financial Inc. | 4.2 | 4.8 | -0.2 |
| 497. Assurant Inc. | 4.8 | 5.4 | -0.6 |
| 498. Goodyear Tire & Rubber Co. | 3.0 | 13.3 | -10.3 |
| 499. Ford Motor Co. | 2.7 | 33.5 | -30.8 |
| 500. General Motors Co. | -42.6 | 37.1 | -79.7 |

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IDENTIFYING THE DRIVERS OF VALUE CREATION

VALUE CREATION, OPERATING PROFITABILITY, COST OF CAPITAL, AND GROWTH OPPORTUNITIES

- A firm's capacity to create value depends on:

1) After-tax return on invested capital:

$$ROIC = \frac{EBIT \times (1 - \text{Tax rate})}{\text{Invested capital}} = \frac{NOPAT}{\text{Invested capital}}$$

-EBIT: earnings before interest and tax

-Invested capital: cash + WCR + net fixed assets

-NOPAT: net operating profit after tax

2) Weighted average cost of capital:

3) Its ability to grow



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IDENTIFYING THE DRIVERS OF VALUE CREATION

VALUE CREATION, OPERATING PROFITABILITY AND COST OF CAPITAL

- Accounting profits are measures of performance derived from income statements that do not account for the amount of invested capital used to generate those profits.
- Economic profits account for both: accounting profits and use of invested capital. The most frequently used economic profit is **Economic Value Added (EVA)**.

$$EVA = (ROIC - WACC) \times \text{Invested capital}$$

clearly shows that a positive **return spread** implies a positive EVA, which implies value creation

- **The objective of value creation is not maximizing operating profitability (ROIC) but maximizing the return spread (ROIC-WACC)**



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IDENTIFYING THE DRIVERS OF VALUE CREATION

VALUE CREATION, OPERATING PROFITABILITY AND COST OF CAPITAL

$$\text{Market value added} = \frac{(\text{ROIC} - \text{WACC}) \times \text{Invested capital}}{\text{WACC} - \text{Growth rate}}$$

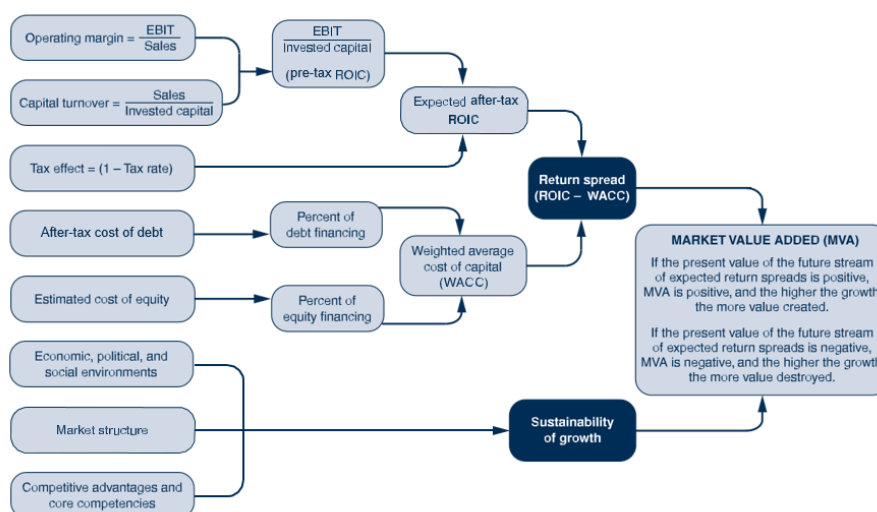
Says that a firm creates value only if its expected ROIC is higher than firm's cost of capital. Growth alone does not necessarily create value.

| Firm | Expected Growth Rate | Expected ROIC | Estimated WACC | Invested Capital | Market Value Added | Is Value Created? |
|------|----------------------|---------------|----------------|------------------|--|-------------------|
| A | 7% | 10% | 13% | \$100 | $\frac{-3\% \times \$100}{13\% - 7\%} = -\50 | No |
| B | 4% | 13% | 10% | \$100 | $\frac{+3\% \times \$100}{10\% - 4\%} = +\50 | Yes |



IDENTIFYING THE DRIVERS OF VALUE CREATION

LINKING VALUE CREATION TO ITS FUNDAMENTAL DETERMINANTS



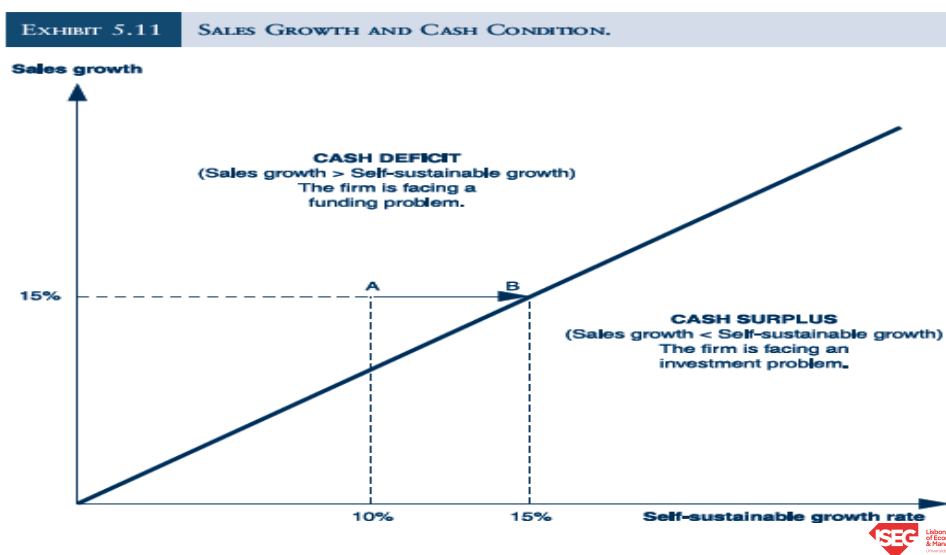
SELF-SUSTAINABLE GROWTH RATE

- A firm's **self-sustainable growth rate (SGR)** is the maximum rate of growth in sales a firm can achieve without issuing new shares or changing either its operating policy (same operating profit and capital turnover) or its financing policy (same debt-to-equity ratio and dividend payout)

$$\text{Self-sustained growth rate} = \text{Retention rate} \times \text{ROE}$$

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SELF-SUSTAINABLE GROWTH RATE



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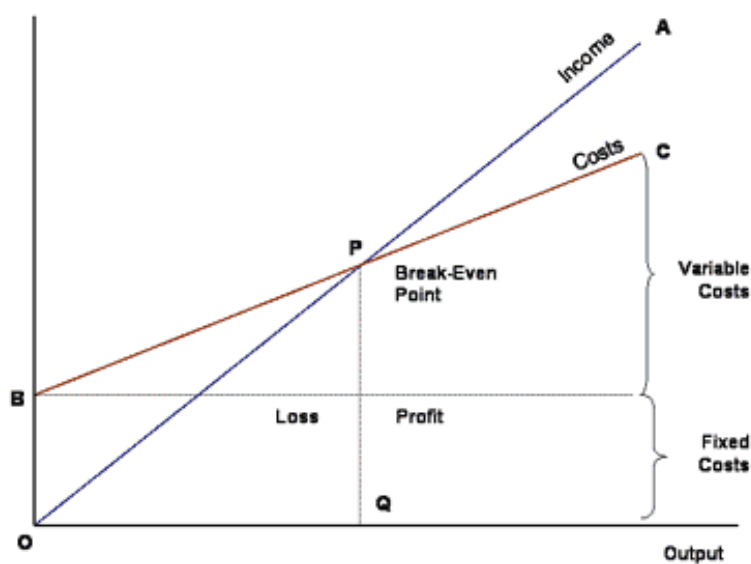
Risk

The probability of variance in future cash-flows. Includes business risk (volatility of EBIT) and financial risk (volatility of EAT).

Techniques for risk assessment:

- Statistical measures (variance, standard deviation);
- Ratios based on financial statements;
- Scoring techniques;
- Capital Asset Pricing Model.

Business risk (Break-even-point)



Business risk

Break-even point: Level of sales necessary to achieve EBIT=0

$$V_o^* = \frac{\text{Fixed costs}}{\% \text{ CM}}$$

$$\% \text{ CM} = \frac{\text{Contribution margin}}{\text{Sales}}$$

$$Q_o^* = \frac{\text{Fixed costs}}{p - VC_u}$$

p – Sales price per unit
 VC_u – Variable unitary costs

Operational leverage: EBIT's elasticity when facing changes in sales

$$\text{Op Lev} = \frac{\text{Sales} - \text{Variable costs}}{\text{EBIT}}$$



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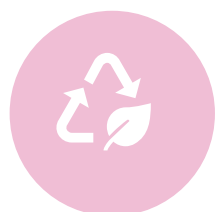
Sustainability, Accountability and Ethics

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 Pedro de Almeida Fernandes

Class 4

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Agenda



ACCOUNTABILITY AND
SUSTAINABILITY



FINANCIAL REPORTING
NON-FINANCIAL REPORTING



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Financial reporting is not enough!

They do not reflect the entire business activity of a company.

Reflects only short-term monetary aspects of business, but does not provide insight into environmental, social, and managerial aspects of business, **which are, in the long term, much more important.**

Nonfinancial reporting is a 'must' in the modern economy as it reflects the responsibility of a company to conduct business activities in a sustainable way.

This helps investors, consumers, policy makers and other stakeholders to evaluate the **non-financial performance** of large companies and encourages these companies to develop a responsible approach to business.

There is growing evidence that sustainability reporting increases in significance. Analyses of corporate responsibility reports in the world demonstrate a sharp increase: from 26 reports in 1992 to 5593 reports in 2010 to 9500 in 2015 (Szekely et al, 2017).



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Legal Certification/Audit of Sustainability Reports



On 5 January 2023, the Corporate Sustainability Reporting Directive (EU) 2022/2464 (CSRD) entered into force (see the following slides)

From financial years starting on or after 1 January 2024, large companies shall **draw up sustainability statements in accordance with the European Sustainability Reporting Standards (ESRS)** – a deadline postponed with the “Omnibus package”.

These statements will need to be subject to an assurance engagement by statutory auditors or other assurance services providers



Why is it important to Certicate Sustainability Reports?



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Legal Certification/Audit of Sustainability Reports



1

Reliability and comparability

Limited assurance that the sustainability information is **free from material misstatements**, ensuring that disclosures are accurate and aligned with the **European Sustainability Reporting Standards (ESRS)**

2

Transparency and trust

User confidence in sustainability statements. Practitioners are expected to assess whether disclosures meet qualitative characteristics, which directly supports transparency

3

Double materiality

Material misstatement in assurance is distinct from the **double materiality** used in preparing sustainability statements, the guidelines clarify that both are essential. Practitioners must understand the entity's environment and internal controls to assess risks and ensure that disclosures reflect both financial and impact materiality

4

Integrity and fraud detection

Practitioners are required to remain alert to **fraud risks and non-compliance** with laws and regulations.

5

Legal obligation and harmonisation

The CSRD mandates **limited assurance engagements** starting from financial years beginning on or after **1 January 2024**, with the **European Commission expected to adopt formal standards by 1 October 2026**. Meanwhile, the CEAOB guidelines serve to **harmonise practices across Member States**

https://finance.ec.europa.eu/document/download/8ac2df18-2ae1-4bc7-9d87-a4a740e48f5e_en?filename=240930-ceaob-guidelines-limited-assurance-sustainability-reporting_en.pdf



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Why to develop a ESG Report?

Example: Tesla

in their [Impact report 2019](https://www.tesla.com/ns_videos/2019-tesla-impact-report.pdf) (https://www.tesla.com/ns_videos/2019-tesla-impact-report.pdf) share and benchmark the environmental impact of its vehicles vs their internal combustion competitors.



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Sustainability Reporting

WBCSD defines the sustainability report as:

"... reports on sustainable development (produced by companies) as publications for internal and external shareholders in order to disclose corporate positions and activities on the economic, environmental and social fronts. In short, the purpose of these reports is to show the contribution of companies to sustainable development."

Business performance is viewed as a function of balance between economic, social, and ecological aspects of business activity.



The ultimate goal is to balance on all sides



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Sustainability Reporting

“Sustainability” has evolved to refer to strategic and operational considerations related to a broad set of environmental, social and governance concerns.

Investors increasingly expect companies to recognise and address risks and opportunities in relation to ESG factors that impact long-term value creation.

Sustainability, ESG, Corporate responsibility and CSR are concepts that can be used interchangeably, but be aware of their differences.



making an overall positive contribution



achieving sustainable growth



avoiding and addressing adverse impacts related to its operations, products or services



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Sustainability Reporting

Progress in sustainability reporting

Every step requires expert insight in environmental data and topics

Basic vision/ambition

- Materiality analysis
- Defining (internal) responsibility & ensuring management endorsement
- Assess level of disclosure and PI/KPIs according to Global Reporting Initiative (GRI) structure.

Define metrics or targets

- Engage with internal stakeholders
- Defining smart metrics and KPIs
- Target setting
- Setting up reporting tools and analyses
- Analyse and report sustainability programs to stakeholders.
- Improve data management and ensure data quality of reporting

Integrate

- Vision becomes business practice
- Tracking metrics over time
- Extend employee knowledge and engagement



Source: Blonk consultants

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The different types of report

- **Stand-alone reports** that focus on social and environmental issues
- **Combined reports** that introduce social and environmental issues into the existing financial annual report
- **Integrated reports** that highlight linkages across financial and non-financial information

Is Reporting improving?



Materiality Process- More than 90% of reports disclosed a materiality process. Of those disclosing a materiality process, there is a sizable (22%) increase in reports disclosing a double materiality process, from 55% in 2023 to 77% in 2024.

The state of integrated reporting - 14% of reports reviewed combine financial and non-financial information, lower than 17% in 2023; 27% are self-declared integrated reports (2024).

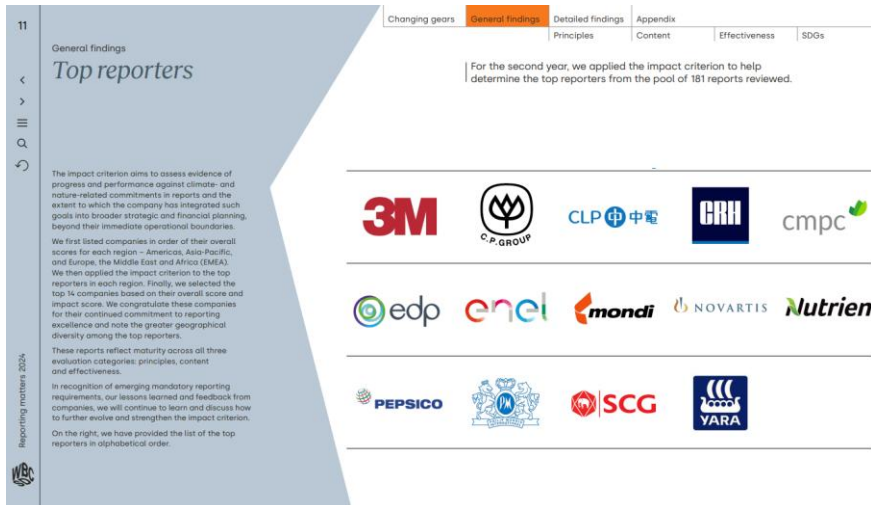
The state of GRI reporting - 83% of reviewed reports reference the Global Reporting Initiative (GRI)

External Assurance- Most reports (90%) have external assurance for key sustainability performance indicators or reporting process, of which 4% provided assurance at a reasonable level and 80% at a limited level.

Sustainability Governance- Reporting on the sustainability responsibilities of individuals from the board or executive committees increased substantially, from 20% in 2023 to 32% in 2024.

Source: WBCSD 2024

Is Reporting improving?



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ESG Reporting

Meaning



Investors are increasingly applying these non-financial factors as part of their analysis process to identify material risks and growth opportunities.

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ESG Reporting

Meaning

- ✓ **ENVIRONMENTAL** – Climate change, resources and pollution
 - ✓ **SOCIAL** – Human rights, health and safety
 - ✓ **GOVERNANCE** – Tax transparency, anti-corruption
- Equally relevant to a large publicly listed issuer with a long track record of reporting; a smaller company; a privately held business; or a debt issuer.
 - Is 'ESG' the same as 'sustainability' and 'corporate responsibility'? – what is the relationship among these concepts?
 - Different formats: Annual report, standalone sustainability report, or integrated report?



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ESG Reporting: A management tool

- It must be regarded, first and foremost, as a **management tool** that permits the company to measure its progress and its non-financial performance.
- And also to state that the company is on track with its commitments.
- Help pilot the ESG strategy in the short-, mid-, and long-term and facilitate prospective decision making.
- Help advance dialogues with important stakeholders.

In the context of ESG data, the BP example points to the fact that past performance as measured by ESG data was not decision-useful for investors or the company. Rather, data on the management control systems and governance structures (GES) underlying these ESG risks would have presented a more insightful assessment of the risk. BP was listed as the second most sustainable large company in the world by the Accountability Rating in 2006, down from first in 2005—only four years before the DeepWater Horizon accident and a year after the Texas City refinery accident.



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Deepwater Horizon Accident



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ESG Reporting: Why to develop a ESG Report?

1. To show their stakeholders, and society in general, that they consider their expectations and operate within the bounds of the **social contract**.
2. To join sustainability indexes ([Dow Jones Sustainability Index](#), [Footsie4Good](#))
3. To build a management tool to affirm that the company is on track with its commitments.
4. To trigger action making ESG performance part of the discussion
5. To assure transparency - more and more external bodies are demanding integrated reports that contain not just financial and economic information but societal and environmental data too.



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ESG Reporting

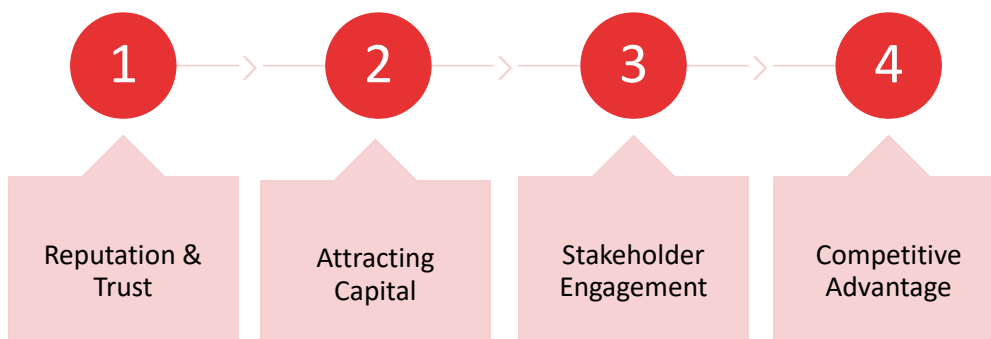
A good quality reporting is the one that:

1. meets the needs of its stakeholders;
2. is aligned with the SDGs;
3. maximizes society's contribution, with appropriate targets and indicators;
4. understands how these issues will challenge society's ability to operate in the long run.

If this is the case, **non-financial reporting is a real strategic plan** for the company to manage its short-term agenda by including a long-term vision.

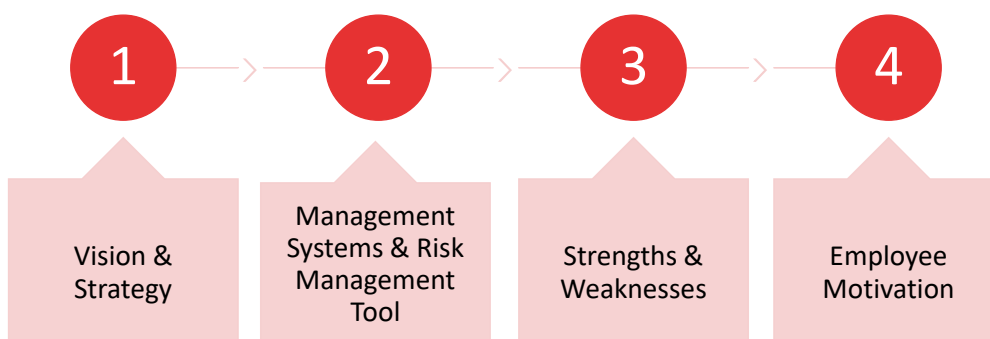
ESG Reporting

EXTERNAL BENEFITS



ESG Reporting

INTERNAL BENEFITS



Why are Non-Financial Reporting Standards Important?

1. **Addressing shortcomings of the NFRD:** CSRD (EU) 2022/2464 (CSRD) improves relevance, comparability, and reliability of sustainability disclosures.
2. **Expanding scope and standardization:** Applies to all large companies and listed SMEs with mandatory ESRS standards.
3. **Enhancing investor confidence and market credibility:** Provides high-quality data for sustainable finance and risk assessment.
4. **Supporting the European Green Deal:** Ensures accountability and tracks progress toward climate neutrality goals.
5. **Legal integration and assurance:** Requires limited assurance by independent auditors to enhance credibility.



Non-financial reporting framework in European Union

2014 – Non-Financial Reporting Directive (NFRD)

- Directive 2014/95/EU
- Required large public-interest entities with over 500 employees to disclose environmental, social, and governance (ESG) information

2020 – EU Taxonomy Regulation

- Regulation (EU) 2020/852
- Created a classification system for environmentally sustainable economic activities. Disclosure obligations began in **2022–2023** for companies under the NFRD

2022 – Corporate Sustainability Reporting Directive (CSRD)

- Directive (EU) 2022/2464
- Replaces the NFRD, expands scope to ~50,000 companies, introduces **double materiality**, mandatory **limited assurance**, and **European Sustainability Reporting Standards (ESRS)**

2023 – Adoption of First ESRS

- Commission Delegated Regulation (EU) 2023/2772
- First 12 ESRS adopted, covering general, environmental, social, and governance topics



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Non-financial reporting framework in European Union

2024 – Corporate Sustainability Due Diligence Directive (CSDDD)

- Directive (EU) 2024/1760, entered into force on **25 July 2024**
- Requires large EU and non-EU companies to identify, prevent, and mitigate adverse human rights and environmental impacts across their operations and value chains. Also mandates a **climate transition plan** aligned with the Paris Agreement

2025 – Omnibus Package

- Adopted **26 February 2025**
- Aims to simplify and reduce the regulatory burden of CSRD, CSDDD, and Taxonomy rules. Key changes include:
 - Raising reporting thresholds (e.g., 1,000 employees and €450M turnover)
 - Postponing CSRD reporting for Waves 2 and 3 by two years
 - Removing the obligation to adopt sector-specific ESRS
 - Keeping assurance at the **limited** level



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Non-financial reporting framework in European Union

Exercise – Multiple Choice - Corporate
Sustainability Reporting Directive (EU)
2022/2464 (CSRD)



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Non-financial reporting framework in European Union

STANTON CHASE



A C-Suite Sustainability Guide:

Understanding the 2024 EU Directives



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Non-financial reporting framework in European Union

The EU Sustainability Legislation Landscape

| | The EU Green Deal | Sustainable Finance Disclosure | EU Taxonomy - classification of economic activities | Corporate Sustainability Reporting | Corporate Sustainability Due Diligence | Green Claims |
|-------------|--|---|--|---|--|---|
| FOCUS | EU's comprehensive sustainable development strategy | Sustainable finance | Sustainable business activities | Corporate sustainability | Sustainable supply chains | Environmental marketing claims |
| DESCRIPTION | The EU Green Deal is a comprehensive policy initiative aimed at making the European Union climate-neutral by 2050. It encompasses a wide range of measures and regulations to drive environmental sustainability and create a more resilient and greener European economy. | Entity- and product-level disclosures of sustainability-related risk in investment decision-making. | Classification of sustainable activity disclosures are required under the CSRD and SFDR regulations. | Double materiality assessments determine the information to be reported through the ESRS reporting network. | Establishment of a framework for responsible supply chains requiring companies to report on environmental and social impacts of their own operations and those of their suppliers. | Aims to reduce greenwashing amongst companies by establishing a framework and requirements which companies should follow when making environmental claims about their products. |
| STATUS | Partially. <input checked="" type="checkbox"/> | In force as of January 2022. <input checked="" type="checkbox"/> | In force as of July 2020. <input checked="" type="checkbox"/> | In force as of January 2023. <input checked="" type="checkbox"/> | The Council of the European Union approved the Corporate Sustainability Due Diligence Directive on March 15, 2024. <input checked="" type="checkbox"/> | Proposed in March 2023. Still in the process of being enacted and operationalized. <input type="checkbox"/> |



Non-financial reporting framework in European Union

The EU Taxonomy

The [EU Taxonomy](#) is a classification system that defines activities deemed to be environmentally sustainable. It aids companies and investors in making more informed, sustainable investment decisions, and it is designed to help achieve the objectives of the EU Green Deal.

The following companies are impacted by the EU taxonomy:

- Large, listed companies that are subject to non-financial reporting requirements
- Financial market participants (including asset managers and institutional investors)
- Companies covered by the Corporate Sustainability Reporting Directive (CSRD)

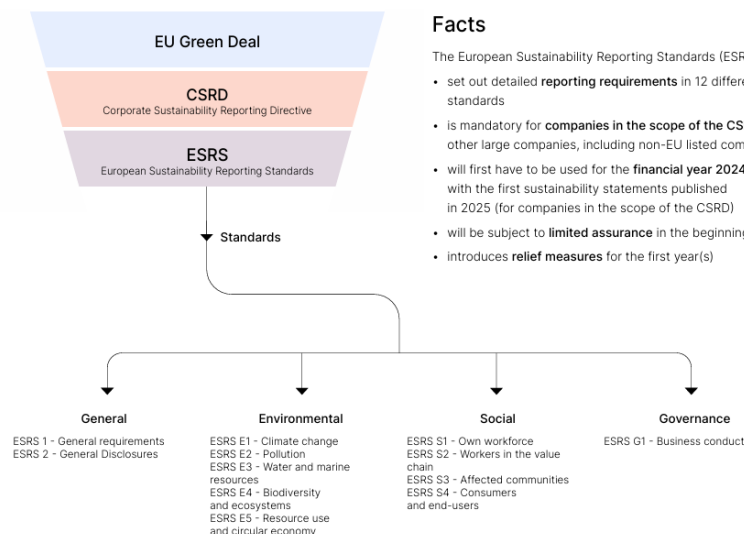
To qualify as sustainable under the taxonomy, an economic activity must positively contribute to at least one of six environmental objectives, not significantly undermine other objectives, comply with minimal safeguards, and meet technical screening criteria.

Non-financial reporting framework in European Union

The Corporate Sustainability Reporting Directive (CSRD) (EU) 2022/2464 (CSRD), which replaced the Non-Financial Reporting Directive (NFRD), is vital in preventing unregulated corporate behaviors that could lead to further environmental harm, social harm, or unethical practices. Its main purpose is to promote responsible and sustainable business practices. It applies to the following companies:

1. Large companies that meet at least two of the following three criteria a. A balance sheet total of €25 million b. A net turnover of €50 million c. An average number of 250 employees during the financial year
2. All companies listed on EU regulated markets, except for listed micro-enterprises
3. Public-interest entities like listed companies, banks, and insurance companies previously covered by the NFRD, which have more than 500 employees
4. Non-EU companies that generate a net turnover of €150 million in the EU and meet certain other qualifying criteria
5. Listed small and medium-sized enterprises (option to opt-out until 2028)

Non-financial reporting framework in European Union



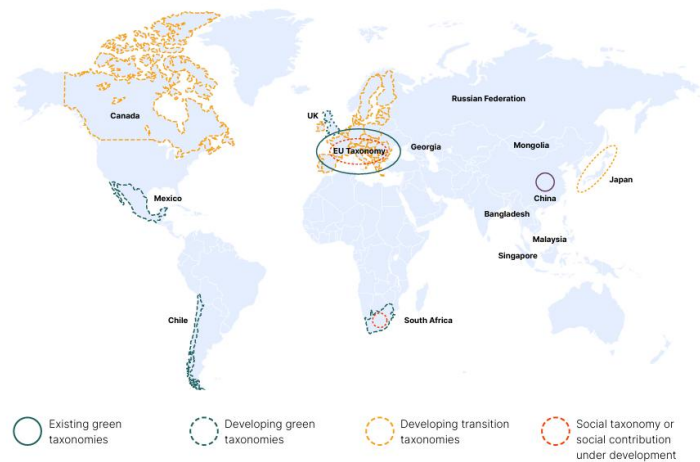
Facts

The European Sustainability Reporting Standards (ESRS)...

- set out detailed **reporting requirements** in 12 different standards
- is mandatory for **companies in the scope of the CSRD** and other large companies, including non-EU listed companies
- will first have to be used for the **financial year 2024** with the first sustainability statements published in 2025 (for companies in the scope of the CSRD)
- will be subject to **limited assurance** in the beginning
- introduces **relief measures** for the first year(s)

Non-financial reporting framework in European Union

Sustainable Taxonomy Development



*Based on data from July 2021.

Non-financial reporting framework in European Union

The Omnibus Package – Stop the Clock (February, 2025)



In order to boost competitiveness and unleash growth, the EU needs to foster a favourable business environment and ensure that companies are not stifled by an excessive regulatory burden

Non-financial reporting framework in European Union

The sustainability “Omnibus” includes amendments to the [Corporate Sustainability Reporting Directive \(CSRD\)](#), the [Corporate Sustainability Due Diligence Directive \(CSDDD\)](#), accompanied by a draft Taxonomy Delegated Act for public consultation, with the aim of **making sustainability reporting more efficient and less burdensome**.

The main changes in the area of sustainability reporting will

- **Remove around 80% of companies from the scope of the CSRD** – only companies that have more than 1,000 employees and either a turnover above €50 million or a balance sheet total above €25 million will remain subject to the rules
- **Ensure that sustainability reporting requirements for large companies will not burden smaller companies in their value chains**. To this end, the Commission will adopt a voluntary reporting standard, based on the SME standard developed by [EFRAG](#). This standard will act as a shield, by limiting the information that companies or banks falling into the scope of the CSRD can request from companies in their value chains with up to 1000 employees
- **Revise and simplify the existing [European Sustainability Reporting standards \(ESRS\)](#)**, against which the companies remaining in scope will have to report
- **Delete the requirement on the Commission to adopt sector-specific standards** and keep the assurance requirement at the level of “limited” assurance, not moving in the future to the more demanding level of “reasonable” assurance
- **Limit reporting obligations under the EU Taxonomy** to the largest companies with at least 1000 employees and €450 million net turnover, while still allowing other large companies within the future scope of CSRD to report voluntarily



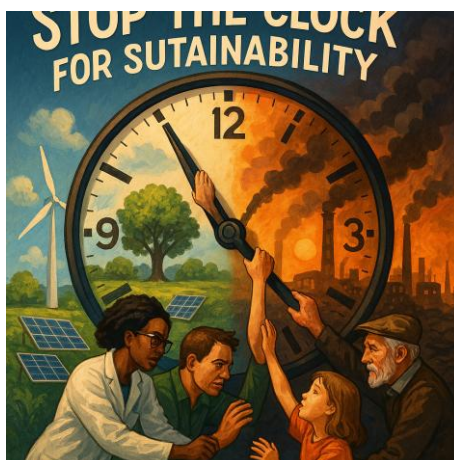
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Non-financial reporting framework in European Union



A separate “stop the clock” proposal will also postpone by two years the reporting requirements for companies currently in the scope of CSRD which were scheduled to report as of 2026 or 2027. This is to give time to the co-legislators to agree to the Commission's proposed substantive changes.



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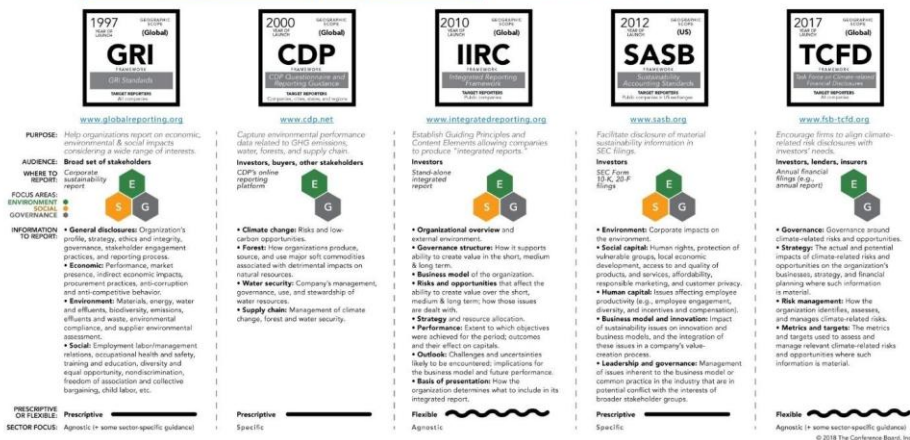
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ESG Reporting - ESG World Reporting - Frameworks






Finding the right chemistry for sustainability reporting

These frameworks help organizations report different aspects of their nonfinancial impact



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ESG Reporting - ESG World Reporting - Frameworks

| STANDARD | FOCUS | WHY REPORT | SCORING | WHO REPORTS | REPORTING PERIOD |
|---|---|---|--|---|--|
|  | Primarily GHG emissions, but has grown to address water and forestry issues as well. | CDP holds the largest repository of corporate GHG emissions and energy use data in the world and is backed by nearly 800 institutional investors representing more than \$90 trillion in assets. Its transparent scoring methodology helps respondents understand exactly what's expected of them. CDP was regarded as the world's most credible sustainability rating in 2013. | Companies receive two separate scores for Disclosure and Performance using a 100-point scale. CDP recognizes top scoring companies in the Carbon Disclosure Leadership Index (CDLI). | Public and private companies, cities, government agencies, NGOs, supply chains. | <ul style="list-style-type: none"> Climate Change program: Feb. 1 - May 29 Supply Chain program: April 1 - July 3 Cities and Forestry programs: Feb. 1 to June 30 |
|  | Industry-specific criteria considered material to investors. Equal balance of economic, social and environmental indicators. | Membership in the DJSI is prestigious as it represents the top 10% of the 2,500 largest companies in the S&P Global Broad Market Index. The Corporate Sustainability Assessment (CSA) brings a sector-specific focus and need-to-know simplicity to disclosure for public companies. This index was regarded as the world's second most credible sustainability rating after CDP. | Companies receive a total Sustainability Score is between 0-100 and are ranked against peers; includes a Media and Stakeholder Analysis; those scoring within the top 10% are included in index. | The 2,500 largest public companies in the world. | April 3 - May 28 |
|  | Corporate social responsibility with an equal weight on environmental, social and governance factors. Heavy on stakeholder engagement to determine materiality. | GRI was announced as the official reporting standard of the UN Global Compact, making it the default reporting framework for the compact's more than 5,800 associated companies. It's among the oldest, most widely adopted and most widely respected reporting methodologies in the world. Its thorough focus on social and governance aspects of ESG is unparalleled. | Focus is on transparency so no true scoring methodology; new G4 framework requires entity reporting to choose "Core" or "Comprehensive" reporting. | Public and private companies, cities, government agencies, universities, hospitals, NGOs. | Anytime, but typically integrated into a company's traditional annual report. |
|  | Environmental, social and governance performance in the global commercial real estate sector only. Includes asset- and entity-level disclosures. | Private and public institutional investors look to GRESB's annual survey as the barometer of sustainability performance in the commercial real estate industry. Its niche target audience allows it to give deeper and more accurate insights into industry performance and reveal "investment grade" results. | Responses scored out of a possible 140.5 points distributed across two categories of data. Heavy weighting placed on implementation and asset-level performance. | Commercial real estate owners, asset managers and developers. | April 1 - June 30 |
|  | US public companies only. Industry-specific issues deemed material to investors. | SASB's standards enable comparison of peer performance and benchmarking within an industry. Studies by Goldman Sachs and Deutsche Bank have shown the stock of companies who disclose on sustainability outperforms that of companies who do not. SASB is backed by the likes of Bloomberg LP and the Rockefeller Foundation, giving it extra clout with capital markets. | No scoring system. Instead, SASB is a standardized methodology for reporting sustainability performance through the Form 10-K. | No one yet - they've just released their first sector reporting guidelines. | Integrated into quarterly 10-K filings. |

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ESG Reporting - ESG World Reporting - Frameworks

COMPARATIVE TABLE BETWEEN STANDARDS

| Aspect | Global Reporting Initiative (GRI) | Sustainability Accounting Standards Board (SASB) | Corporate Sustainability Reporting Directive (CSRD) | International Financial Reporting Standards (IFRS S1 & S2) |
|----------------------|---|--|---|--|
| Primary Objective | To provide a comprehensive framework for disclosing a company's environmental and social impacts, focusing on the broader stakeholder interests (double materiality). | To enable companies to disclose financially material ESG information tailored to investor needs, with industry-specific metrics. | To enhance transparency and consistency in sustainability reporting by integrating double materiality into financial and non-financial disclosures. | To establish global sustainability reporting standards, aligning financial and non-financial data with a focus on climate-related financial risks and opportunities. |
| Materiality Approach | Double materiality: Addresses both the impacts of the company's activities on society and the environment, as well as how these impacts may affect the company. | Single materiality: Focuses on how sustainability issues impact a company's financial performance, primarily for investor use. | Double materiality: Emphasizes both financial materiality (impacts on financial health) and environmental/social materiality (impacts on society). | Primarily financial materiality: Emphasizes sustainability-related financial disclosures affecting investor decision-making. |
| Scope of Application | Applicable across industries globally, including luxury fashion, with voluntary adoption. | Tailored for specific industries, including Apparel, Accessories, and Footwear, primarily investor focused. | Mandatory for large and listed companies in the EU (starting from FY 2024, first report due in 2025), extending to luxury fashion brands with significant EU market presence. | Global applicability, designed for companies reporting financial statements under IFRS, including luxury fashion brands (set to become effective in FY 2024). |

Mazzer (2025)



ESG Reporting - ESG World Reporting - Frameworks

COMPARATIVE TABLE BETWEEN STANDARDS

| Aspect | Global Reporting Initiative (GRI) | Sustainability Accounting Standards Board (SASB) | Corporate Sustainability Reporting Directive (CSRD) | International Financial Reporting Standards (IFRS S1 & S2) |
|----------------------------|--|--|--|---|
| Key Reporting Requirements | Comprehensive disclosures on various ESG factors: GRI 303 (Water and Effluents), GRI 305 (Emissions), GRI 401 (Employment). Emphasizes detailed disclosure on water use, GHG emissions, and labor practices. | Focuses on financially material ESG topics: water management, GHG emissions, and labor practices. Emphasizes financial risks, such as operating in water-stressed regions or supply chain disruptions due to climate change. | Requires extensive disclosures in line with European Sustainability Reporting Standards (ESRS), covering Scope 1, 2, and 3 GHG emissions, climate risks, and social impacts. | IFRS S1 mandates general sustainability disclosures; IFRS S2 focuses on climate-related risks, Scope 1, 2, and 3 emissions, and scenario analysis to assess business resilience to climate impacts. |
| Verification and Assurance | Voluntary third-party assurance is optional but increasingly adopted for credibility. | Primarily self-reported; external assurance is optional and based on investor needs. | Mandatory third-party assurance for all sustainability reports to enhance reliability and comparability. | Integrated with financial audits; consistency across reporting periods required, with some jurisdictions potentially mandating external assurance. |
| Stakeholders Targeted | Broad range of stakeholders, including consumers, regulators, NGOs, and investors. | Investors and financial analysts with a focus on financial implications of ESG risks. | Regulators, investors, and other stakeholders interested in comprehensive sustainability performance. | Primarily investors and financial stakeholders seeking integrated financial and sustainability information. |

Mazzer (2025)



ESG Reporting - Adding complexity?

Companies have been facing with the increasing task of creating annual sustainability reports.

They submit information aligned with different voluntary frameworks:

[DJSI](#), [SDGs](#), [Sustainalytics](#), UN Global Compact ([UNGC](#)), Global Reporting Initiative ([GRI](#)), Climate Disclosure Standards Board ([CDSB](#)), Sustainability Accounting Standards Board ([SASB](#)), International Integrated Reporting Council ([IIRC](#)) and **up to 182 frameworks** according to [WBCSD](#).

Besides, the Paris Agreement gave birth to the Task Force on Climate-related Financial Disclosure ([TCFD](#)).

DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022



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KPMG Survey (2022)

Our survey shows that the N100 companies have continued to steadily increase their reporting rates with each global survey. Ten years ago, 64 percent of N100 companies reported. **In 2022, 79 percent** of these companies report.

Today, nearly all of the world's top 250 companies (G250) report on sustainability. In 2022, the rate of reporting among the G250 remains at 96 percent, the same as 2020.

Global sustainability reporting rates (1993–2022)



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ESG Reporting - Research

Corporate Social Performance, Firm Size, and Organizational Visibility: Distinct and Joint Effects on Voluntary Sustainability Reporting

Philipp Schreck, Sascha Raithel

Business & Society, vol. 57, 4: pp. 742-778. First Published November 8, 2015.

Abstract

This study investigates the **distinct and joint effects of corporate social performance (CSP), firm size, and visibility on a company's decision to disclose sustainability-related information** through sustainability reports. It seeks to provide more nuanced explanations for why certain companies tend to extensively report on their sustainability performance. First, while prior studies have predominantly focused on environmental reporting, the current analysis considers comprehensive sustainability reports that include both environmental and social issues. Second, the article argues that the effects of **two important antecedents of legitimacy pressure—firm size and organizational visibility—should be analyzed separately** rather than restricting the analysis on the effects of legitimacy pressure per se. Third, it argues that the **hypothesized effects are nonlinear** because the marginal costs and benefits of sustainability reporting vary with a company's CSP level, its size, and its visibility in the public. Finally, although there is a strong link between **CSP and sustainability reporting, the strength of this link depends on its size and visibility**. The study of 280 companies in environmentally and socially sensitive industries provides considerable support for these hypotheses, including evidence that size and visibility independently affect sustainability reporting and that the shape of the CSP/sustainability reporting link is contingent upon firm size and visibility.



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ESG Reporting - Research

Framework:

Whether these firms can reap the expected benefits of such engagement often depends on whether their stakeholders have sufficient and credible information about the firms' actual corporate social performance (CSP). Firms may, therefore, choose to voluntarily account for their sustainability performance (Brown & Fraser, 2006; Schaltegger & Burritt, 2006) and disclose that information to influence favorably the decisions of external stakeholders (Montiel, Husted, & Christmann, 2012; Narayanan, Pinches, Kelm, & Lander, 2000).

Research Questions:

Is it primarily the noble social performers that disclose, or is the decision to issue sustainability reports independent of actual social performance?

Why would companies with a nonsatisfactory social performance voluntarily disclose information regarding their inferior performance?

State of the art:

Literature review has identified two major drivers of voluntary sustainability reporting: CSP and legitimacy pressure.



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ESG Reporting - Research

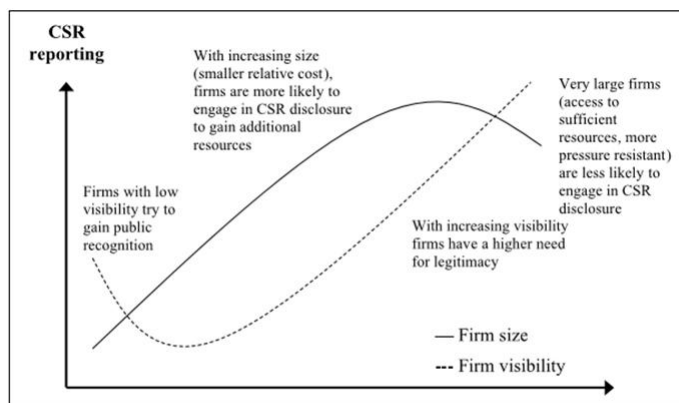


Figure 1. Hypothesized relationships between firm size/visibility and sustainability reporting.

Note. CSR = corporate social responsibility.



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Why to develop a ESG Report?

Life cycle assessment

According to a study done by NYU, products marketed as sustainable grew 5.6 times faster than those that were not.

Therefore, companies designing sustainable products can decide to use their sustainability report to share information from the life cycle assessment (LCA) of their products.

For example Tesla, in their [Impact report 2019](https://www.tesla.com/ns_videos/2019-tesla-impact-report.pdf) (https://www.tesla.com/ns_videos/2019-tesla-impact-report.pdf) share and benchmark the environmental impact of its vehicles vs their internal combustion competitors.



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Master's in Accounting

Sustainability, Accountability and Ethics

Rita Fuentes Henriques

Pedro de Almeida Fernandes

Class 5

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Sustainability Accounting Standards



On 31 March 2022 the International Sustainability Standards Board (ISSB) published its first proposed standards. SASB Standards enable organizations to provide industry-based sustainability disclosures about risks and opportunities that affect enterprise value. In August 2022, the IFRS Foundation assumed responsibility for SASB Standards.

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Sustainability Accounting Standards



SASB Standards identify the subset of environmental, social and governance issues most relevant to financial performance and enterprise value for 77 industries. The Standards were developed using a rigorous and transparent [standard-setting process](#) that included:

- evidence-based research;
- broad and balanced participation from companies, investors and subject-matter experts; and
- oversight and approval from the independent [SASB Standards Board](#).

[Global investors](#) recognise SASB Standards as essential requirements for companies seeking to make consistent and comparable sustainability disclosures.



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Sustainability Accounting Standards



Environment

- GHG Emissions
- Air Quality
- Energy Management
- Water & Wastewater Management
- Waste & Hazardous Materials Management
- Ecological Impacts

Leadership & Governance

- Business Ethics
- Competitive Behavior
- Management of the Legal & Regulatory Environment
- Critical Incident Risk Management
- Systemic Risk Management



Business Model & Innovation

- Product Design & Lifecycle Management
- Business Model Resilience
- Supply Chain Management
- Materials Sourcing & Efficiency
- Physical Impacts of Climate Change

Social Capital

- Human Rights & Community Relations
- Customer Privacy
- Data Security
- Access & Affordability
- Product Quality & Safety
- Customer Welfare
- Selling Practices & Product Labeling

Human Capital

- Labor Practices
- Employee Health & Safety
- Employee Engagement, Diversity & Inclusion



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Sustainability Accounting Standards



- 1.Environment.** Environmental impacts
- 2.Social Capital.** Expectation that a business will contribute to society
- 3.Human Capital.** Management of human resources (employees and individual contractors) as key assets to delivering long-term value
- 4.Business Model and Innovation.** Integration of environmental, human, and social issues in a company's value-creation process
- 5.Leadership and Governance.** Issues that are inherent to the business model or common practice in the industry and that are in potential conflict with the interest of broader stakeholder groups

<https://www.sasb.org/standard-setting-archive/>



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What to report as non-financial information?

DISCLOSURE RECOMMENDATIONS from Financial Stability Board



The Task Force developed **four widely-adoptable recommendations** on climate-related financial disclosures that are applicable to organizations across sectors and jurisdictions.

The recommendations are structured around four thematic areas that represent core elements of how organizations operate:



Governance

The organization's governance around climate-related risks and opportunities

Strategy

The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning

Risk Management

The processes used by the organization to identify, assess, and manage climate-related risks

Metrics and Targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

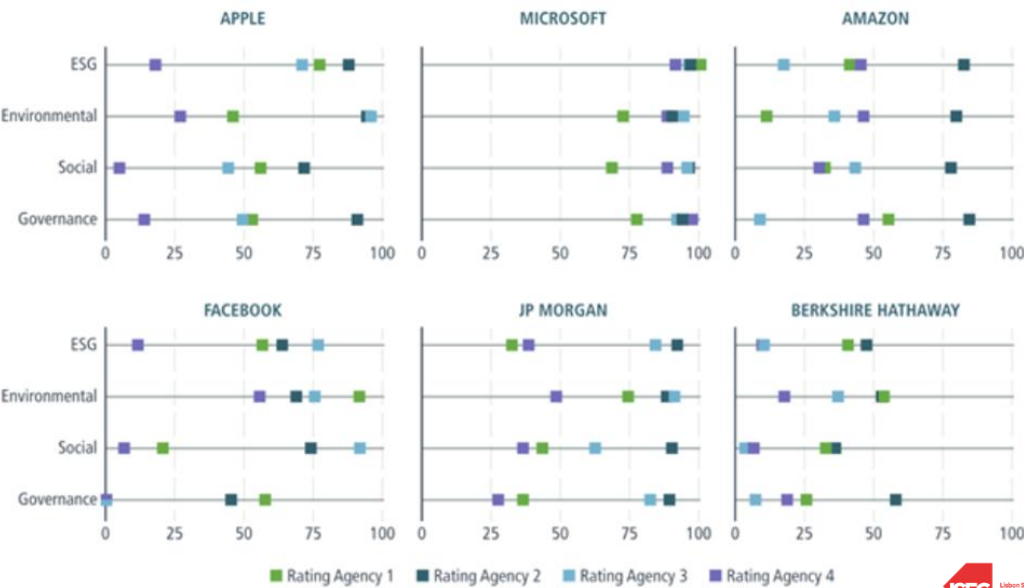


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Sustainability Rankings

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Sustainability rankings



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MEMBER OF

Dow Jones Sustainability Indices

In collaboration with  a RobecoSAM brand

RobecoSAM - Corporate Sustainability Assessment DJSI 2016 - Industry
CSV Test Company RobecoSAM

RobecoSAM AG
Josefstrossen 218
CH-8005 Zurich
Phone +41 44 6531030
Fax +41 44 6531050
www.robecosam.com
info@robecosam.com

Questionnaire with 97 pages

Company Name: CSV Test Company RobecoSAM

Registration Data:

Main contact person: _____
(Person to be contacted in the case of questions)

Function/position: _____

Department: _____

Address: _____

Town/Vcity: _____

Zip: _____

Country: _____

Phone: _____

Fax: _____

E-mail: _____

Web: _____



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Dow Jones Sustainability Indices

ROBECOSAM
We are Sustainability Investing.

Financial Materiality Framework

RobecoSAM's Definition of Materiality of Sustainability

RobecoSAM defines Materiality as "Any factor which might have a present or future impact on companies' value drivers, competitive position, and thus on long-term shareholder value creation"

Key Question: How do different forms of capital impact financial performance?

Forms of Capital:

- Intellectual capital
- Customer capital
- Manufactured capital
- Human capital
- Environmental capital
- Social capital
- Financial capital & business model

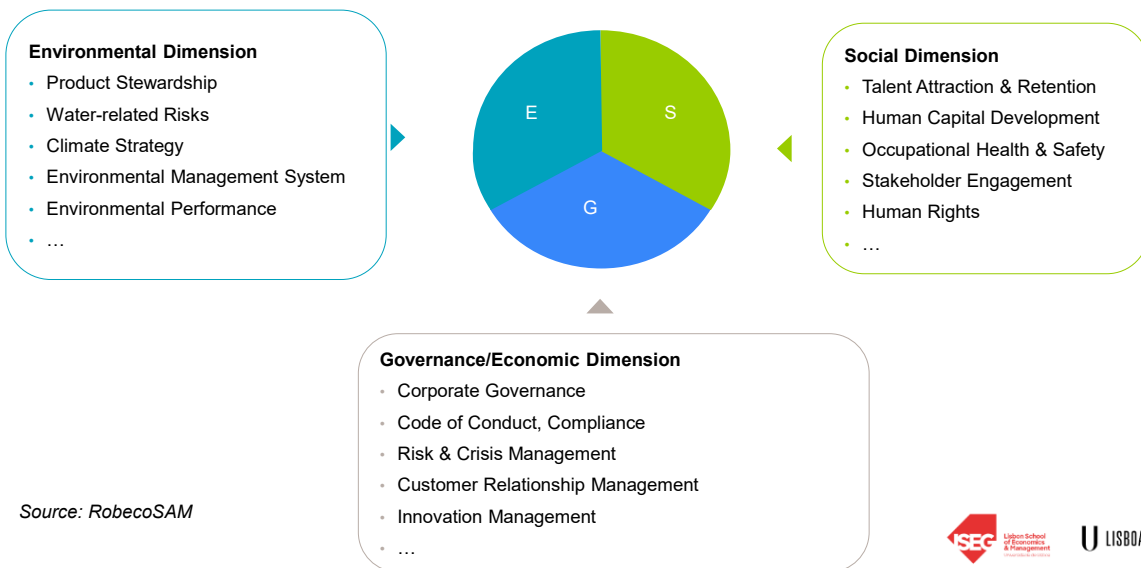
Impact on Financials:

- Growth (Revenue)
- Profitability (Costs)
- Capital Efficiency
- Risk profile



158

In general, the company has to collect varied information on:



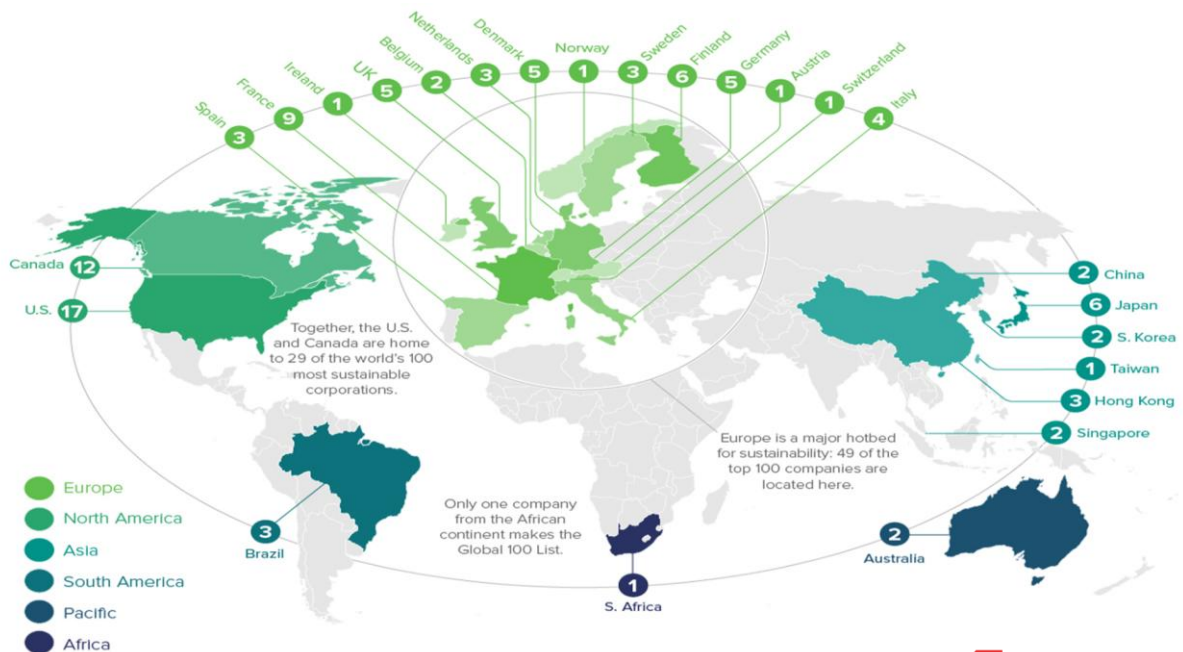
159



SOURCE: Corporate Knights: 2020 Global 100 Ranking



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Stakeholder Engagement principles

(AA1000 Stakeholder Engagement Standard)



Inclusion principle: stakeholder participation in the development and implementation of a strategic and responsible response in relation to sustainability.



Relevance principle: determining relevance is necessary to ensure balanced information that influences the decisions of the organization and its stakeholders.



Accountability and transparency



Responsibility principle: an organization must respond to the concerns of **stakeholders** that affect its sustainable performance. Stakeholders participate in the development of responses.



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Sustainability Rating Methodology: How to Assess the Long Term Viability of Business Models

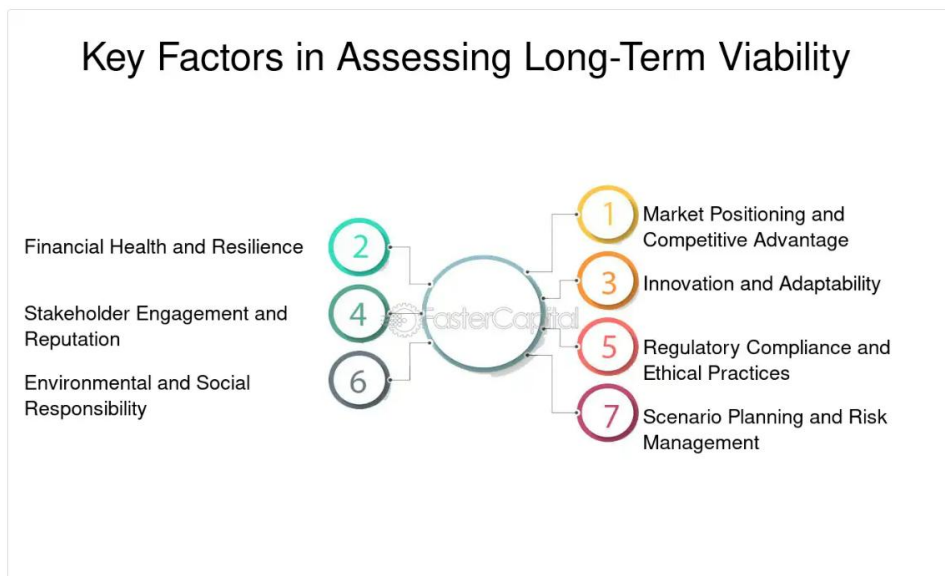


[Sustainability Rating Methodology: How to Assess the Long Term Viability of Business Models - FasterCapital](#)



163

Sustainability Rating Methodology: How to Assess the Long Term Viability of Business Models



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Sustainability Rating Methodology: How to Assess the Term Viability of Business Models

Analyzing Ethical and Social Impact



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Sustainability Rating Methodology: How to Assess the Term Viability of Business Models

Assessing Financial Stability

Cash Flow Analysis

Financial Ratios

Return on Investment (ROI)

Case Study Example

Assessing Profitability



Multiple Perspectives on
Economic Viability

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Sustainability Rating Methodology: How to Assess the Term Viability of Business Models

Examining Corporate Policies and Practices



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Sustainability Rating Methodology: How to Assess the Term Viability of Business Models

Involving and Empowering Key Stakeholders



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The Global Reporting Initiative (GRI)

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The Global Reporting Initiative



Global Sustainability Standards Board (GSSB)



https://www.youtube.com/watch?v=AGqE4OO0_7g

About half of all reports apply this guidelines. The GRI's publicly accessible registry currently lists 13.528 organizations, 53.098 reports and 31.991 GRI reports.

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The Global Reporting Initiative

The GRI Standards are issued by the Global Sustainability Standards Board (GSSB), an independent multi-stakeholder standard setting body created by GRI.

The role of the GSSB is to ensure that the GRI Standards are developed in the public interest, through a multi-stakeholder, transparent and independent process. The Standards are developed according to due process and all meetings are recorded and available on GRI's website.



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The Global Reporting Initiative

The GRI Standards are developed through a multi-stakeholder process:

Expert Working Groups are formed to develop draft content on specific topics, for the GSSB to review and approve.

Each Working Group represents a balanced mix stakeholder groups.

In addition, each draft GRI Standards is released for public comment before the final Standard can be approved.



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The Global Reporting Initiative

GRI's Framework is the **most widely used and recognized** multi-stakeholder approach for disclosing economic, environmental, social, and governance information about a company's performance and impact

The GRI guidelines have been rebranded in 2016 and are now called the GRI standards. While in the early years, the GRI guidelines offered a list of indicators, now the standards prescribe more precisely how companies have to approach the reporting process.

Another important change is that the **concept of materiality has increased in importance**, and that companies have to more clearly define which topics are material, which are those aspects that reflect the organization's significant economic, environmental, and social impacts or that really influence stakeholders' assessments and decisions.

The Global Reporting Initiative

Main features

The GRI Standards:

Have a modular structure.

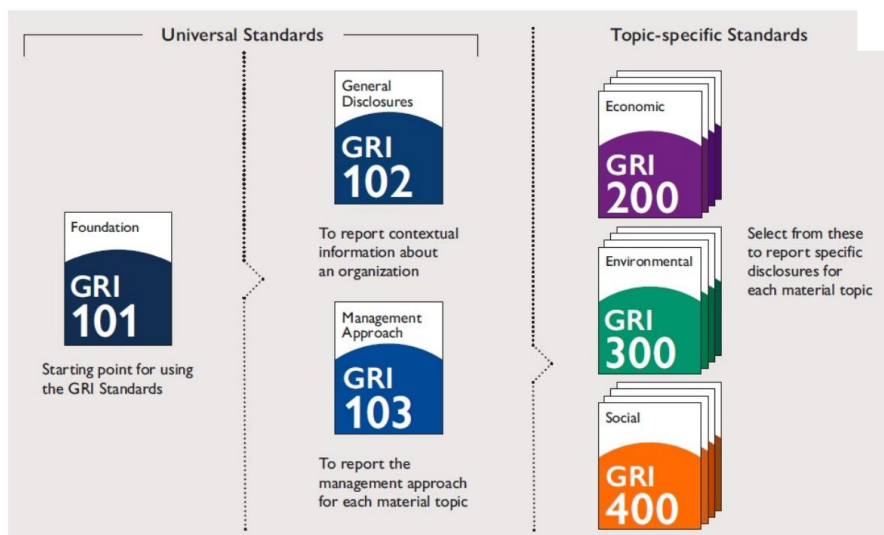
Developed primarily to be used as a set, but can also be used individually.

Organize content into requirements ('shall'), recommendation ('should') and guidance.

Include a set of Reporting Principles to guide the selection and quality of content

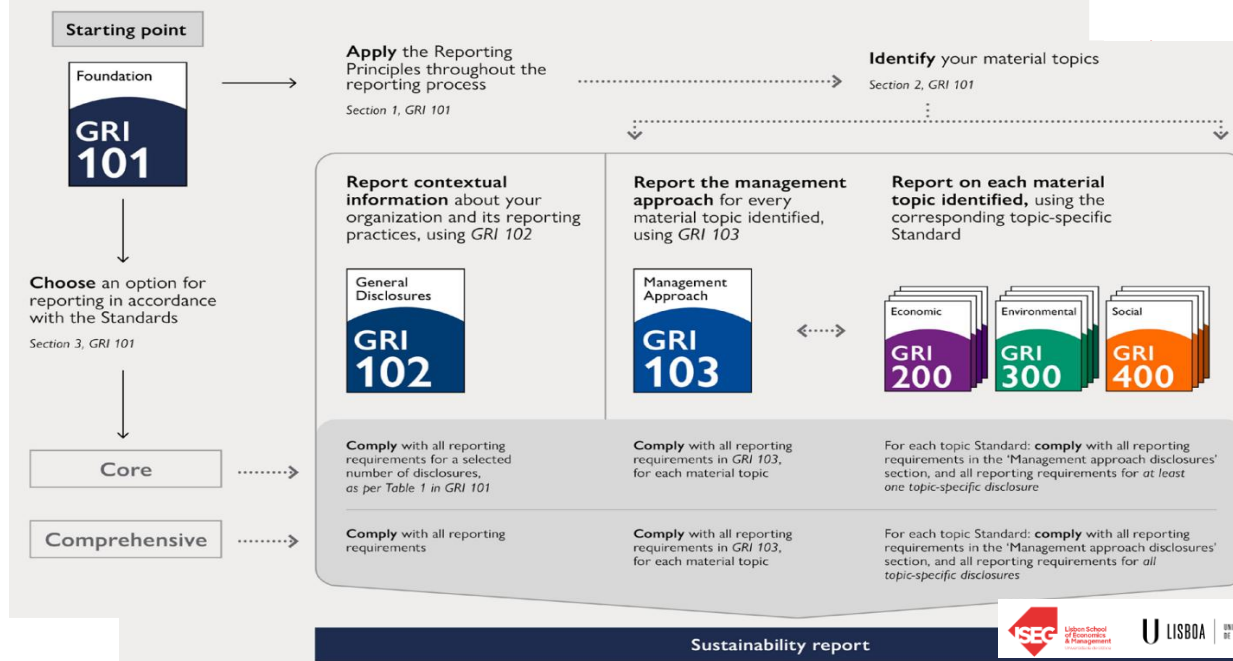
Require organizations to identify and report on material topics.

The Global Reporting Initiative



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Using the GRI Standards for sustainability reporting



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What to report as non-financial information?

Standards e indicators from GRI

SRS 101:
Foundation
includes a
consolidated table
with all criteria
for both 'in
accordance'
options

See **SRS 101:**
Foundation, Section 3,
Table 2 (line 725-
734)

| Claim that can be made about the use of the GRI Standards | | Type of claim | |
|---|---|---|--|
| | | 'In accordance': core option | 'In accordance': comprehensive option |
| Requirements to make the claim | SRS 101: Foundation | <i>'This report has been prepared in accordance with the GRI Standards: core option'</i> | <i>'This report has been prepared in accordance with the GRI Standards: comprehensive option'</i> |
| | SRS 201: General disclosures | Comply with all requirements in Section 2 of this Standard, 'Using the GRI Standards for sustainability reporting' | Same as for 'core' |
| | SRS 301: Management approach | Report Disclosures 201-1 to 201-14, 201-16, 201-18, 201-22, and 201-41 to 201-56 Comply with all reporting requirements for the disclosures reported | In addition to the disclosures required for 'core', report Disclosures 201-15, 201-17*, 201-19 to 201-21*, and 201-23 to 201-40* |
| | Topic-specific Standards (SRS 400, 500, and 600 series), for those topics identified as material. | For each material topic identified, report Disclosures 301-1, 301-2*, 301-3* Comply with all reporting requirements for the disclosures reported | Same as for 'core' |
| | | Report at <u>least one</u> topic-specific disclosure for each material topic* Comply with all reporting requirements for the disclosures reported | Report <u>all</u> topic-specific disclosures for each material topic* Comply with all reporting requirements for the disclosures reported |

* Reasons for omission can apply



What to report as non-financial information?

3 'categories' of content:

- **Requirements:** denoted using 'shall' – these are mandatory instructions
- **Recommendations:** denoted using 'should' – not mandatory but advised
- **Guidance:** denoted using 'can' and by a shaded background. Not mandatory but it helps reporters understand and apply the requirements

Defining report content and topic Boundaries

Reporting requirements ←

6.2 The reporting organization shall report the following information for Disclosure 201-46:

Disclosure 201-46

a. An explanation of the process for defining the report content and the topic Boundaries.

b. An explanation of how the reporting organization has implemented the Reporting Principles for defining report content.

Reporting recommendations ←

6.3 When compiling the information specified in Disclosure 201-46, the reporting organization should include an explanation of:

6.3.1 the steps taken to define the content of the report and to define the topic Boundary;

6.3.2 at which steps in the process each of the Reporting Principles for defining report content were applied;

6.3.3 any assumptions and subjective judgements made in this process; and

6.3.4 any challenges the organization encountered when applying the Reporting Principles for defining report content.

Guidance 6.2 and 6.3 ←

This disclosure asks the reporting organization to explain the process it has gone through to determine the content to include in its sustainability report. This disclosure can be used to explain how the organization identified relevant sustainability topics and prioritized them using the Materiality and Stakeholder Inclusiveness principles. The explanation can also include how stakeholders' views were sought throughout this process, although this can also be covered in the general disclosures related to stakeholder engagement of this Standard.



Reporting process using the GRI Standards

GRI 101: Foundation

Section 1: Reporting Principles

An organization is required to apply all the Reporting Principles if it wants to claim that its sustainability report has been prepared in accordance with the GRI Standards.

| 10 Reporting Principles | |
|--|--|
| CONTENT | QUALITY |
| <ul style="list-style-type: none"> • Stakeholder Inclusiveness • Sustainability Context • Materiality • Completeness | <ul style="list-style-type: none"> • Accuracy • Balance • Clarity • Comparability • Reliability • Timeliness |

Report content principles:

1. Stakeholder Inclusiveness

The reporting organization shall identify its stakeholders, and explain how it has responded to their reasonable expectations and interests.

2. Sustainability Context

The sustainability report should present the reporting organization's performance in the wider context of sustainability.

3. Materiality

The report should cover topics that:

- Reflect the reporting organization's significant economic, environmental, and social impacts; or
- Substantively influence the assessments and decisions of stakeholders. .

4. Completeness

The report should include coverage of material topics and their Boundaries, sufficient to reflect significant economic, environmental, and social impacts, and to enable stakeholders to assess the reporting organization's performance in the reporting period.

Reporting process using the GRI Standards

Section 2: Using the GRI Standards for sustainability

Sets out the basic process for sustainability reporting using the GRI Standards and includes the following content:

Applying the Reporting Principles

Reporting general disclosures (using GRI 102)

Identifying material topics and their Boundaries

Reporting on material topics (GRI 103: Management Approach and topic-specific Standards)

Presenting information in a report (including how to use references to other sources)

Complying with all requirements in this section is mandatory to claim that a report has been prepared in accordance with the GRI Standards.



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Reporting process using the GRI Standards

Section 3: Making claims related to the use of the GRI Standards

1. Using GRI Standards as a set to prepare a sustainability report.
2. Using selected Standards, or parts of their content, to report specific information.

Either way, the organization needs to notify GRI of the use of the Standards and using reasons for omission.

Key Terms

This section defines selected terms and definitions that are useful for understanding *GRI 101: Foundation*



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Reporting process using the GRI Standards

GRI 102: General Disclosures

Disclosures about the organization and its reporting practice

Disclosures in *GRI 102* provide an overview of the reporting organization, including its organizational profile, strategy, ethics and integrity, stakeholder engagement, governance structure and sustainability reporting practice.

This information is important as it provides stakeholders with important context to understand the nature of the reporting organization and other disclosures

Reporting process using the GRI Standards

GRI 103: Management Approach

Management approach disclosures enable an organization to report about their impacts on the economy, the environment and society.

This provides important narrative information about how the organization identifies, analyzes, and responds to its actual and potential impacts.

Reporting process using the GRI Standards

Topic-specific Standards

Each topic-specific Standard follows the same format:

Introduction

Management approach and disclosures

Topic-specific disclosures

Glossary

References

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Overview of the GRI Standards

A report that has been prepared in accordance with the GRI Standards:

Covers all of the organization's material topics.

Applies the 10 Reporting Principles for defining report content and quality.

Can include information published in different places and formats (e.g. on the website and in PDF) – but must have a GRI context index to help users locate information.

Meets specific criteria to be considered either 'Core' or 'Comprehensive'.

Complies with all requirements for disclosure included in the report.

Includes a specific claim about how the GRI Standards have been applied.

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Reporting process using the GRI Standards

GRI definition of stakeholder

“Entity or individual that can reasonably be expected to be significantly affected by the reporting organization’s activities, products and services, or whose actions can reasonably be expected to affect the ability of the organization to successfully implement its strategies and achieve its objectives.”

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| Stakeholder Profile | |
|--|---------------------------------|
| Stakeholder group | |
| Stakeholder objective | |
| Preferred level of engagement with this group | |
| Stakeholder group representative | |
| Specific representative/representing organization | |
| Internal contact person | |
| Stakeholder’s general view on the issue(s) | |
| Expectations towards the business regarding the issue(s) | |
| Engagement history & current highest level of and approaches to engagement | |
| Relationships/conflicts of interest with other stakeholders | |
| Knowledge of the Issue (Specialist Knowledge, Good Knowledge, Medium Knowledge, Lacking Knowledge, No Knowledge) | |
| Willingness to engage (Willing, Moderately Interested but friendly, Uninterested, Hostile) | |
| Actual and/or potential impacts of stakeholder on business – associated risks and opportunities | Positive impacts/Opportunities: |
| | Negative impacts/Risks: |
| Other comments | |

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ESG Reporting - Research

Internal benefits for companies (GRI)

- Increased understanding of risks and opportunities
- Emphasizing the link between financial and nonfinancial performance
- Influencing long-term management strategy and policy, and business plans
- Streamlining processes, reducing costs and improving efficiency
- Benchmarking and assessing sustainability performance
- Avoiding being implicated in publicized environmental, social and governance failures
- Improving competitiveness and innovation of business.

<https://www.globalreporting.org/information/sustainability-reporting/Pages/reporting-benefits.aspx#sthash.9h6fx0hd.dpuf>



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ESG Reporting - Research

External benefits for companies (GRI)

- Mitigating—or reversing—negative environmental, social, and governance impacts
- Improving reputation and brand loyalty
- Enabling external stakeholders to understand the organization's true value
- Ability to attract new customer base (and retain existing), investors and best-quality employees
- Improved shareholder value
- Increased profitability
- Ability to identify and manage reputational risks
- Better quality products and processes
- Improved relations with regulators/legislators

<https://www.globalreporting.org/information/sustainability-reporting/Pages/reporting-benefits.aspx#sthash.9h6fx0hd.dpuf>



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Integrated Reporting Framework

Used to accelerate the adoption of integrated reporting across the world with an aim to:

- Improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital
- Promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time
- Enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies
- Support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.



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Master's in Accounting

Sustainability, Accountability and Ethics

Rita Fuentes Henriques
Pedro de Almeida Fernandes

Class 6

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Mapping of Stakeholders

Shareholder versus Stakeholders

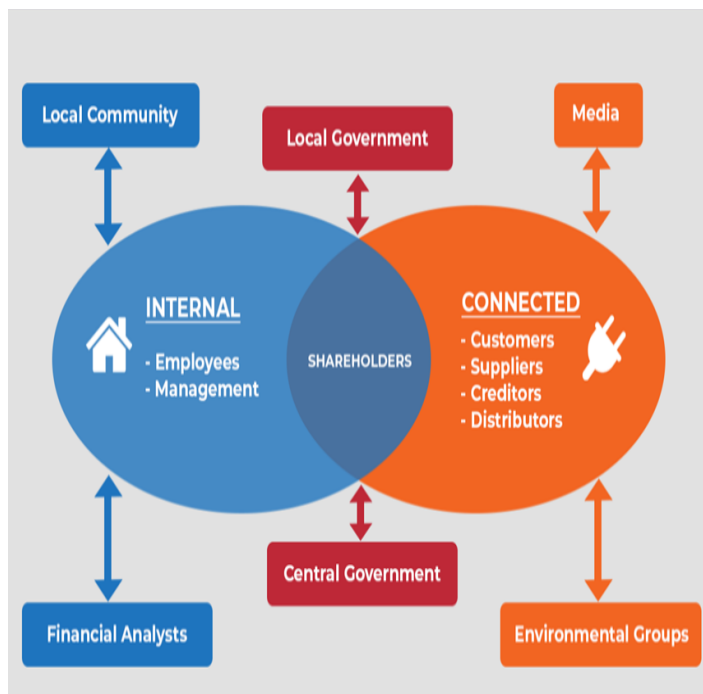
Stakeholders are individuals or groups with an interest in the company's project or portfolio because they are involved in the work or affected by the outcomes.

Among such powerful stakeholders identified as influencing NFR are governments, nongovernmental organizations, multinational companies, regulatory agencies, the EU Global Reporting Initiative, auditors, shareholders, and the media" (Dumitru et al., 2017)



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Stakeholders



Who are the company's top investors?

What kind of investors would the company like to have?

How has the company engaged with relevant investors to understand their concerns?

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Mapping of Stakeholders

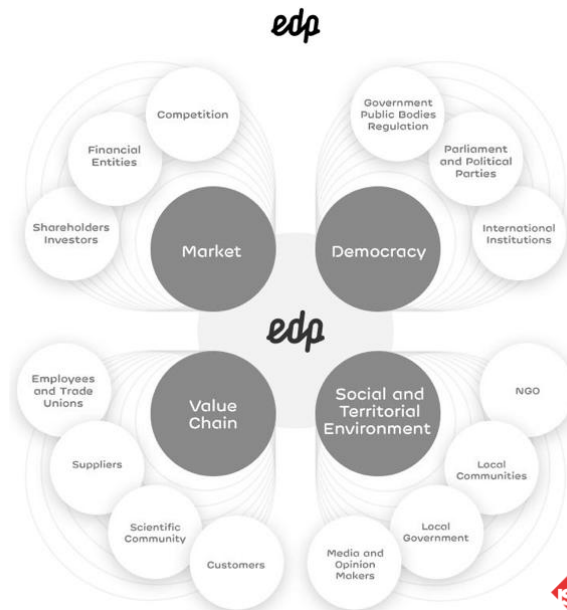
- Stakeholder identification and engagement
- Creating value for stakeholders harmonizing different interests of particular stakeholder groups simultaneously.



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Mapping of Stakeholders

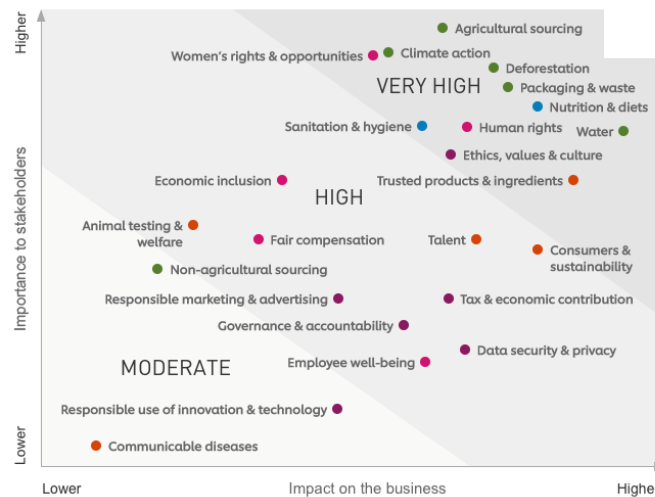
Example: EDP



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Mapping of Stakeholders – Materiality analysis on Relevant issues

Example: Unilever

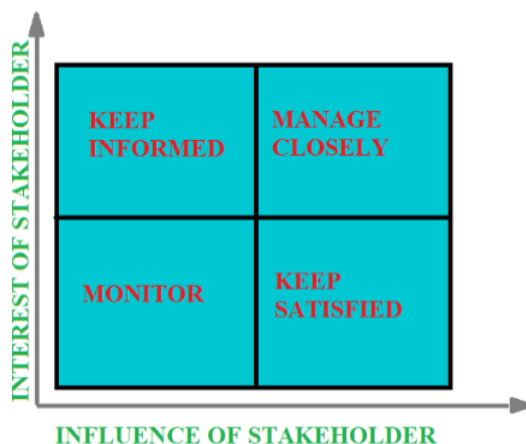


<https://www.unilever.com/sustainable-living/our-approach-to-reporting/defining-our-material-issues/>



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STAKEHOLDER ANALYSIS & STAKEHOLDER MAPPING



Stakeholder mapping is a process of research and debate to determine a key list of stakeholders and to understand their interest and influence (power).

Stakeholder management is the process of managing the expectations of stakeholders.



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STAKEHOLDER ANALYSIS & STAKEHOLDER MAPPING

Stakeholder analysis is a process of collecting and analysing qualitative information to determine whose interests should be taken into account (Schmeer, 2009)

STEPS:

- 1 – Identify key stakeholders
 - External/internal
 - Primary/ secondary
- 2 – Prioritise the stakeholders
- 3 – Understand the stakeholders
- 4 – Managing stakeholders



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STAKEHOLDER ANALYSIS & STAKEHOLDER MAPPING



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STAKEHOLDER ANALYSIS & STAKEHOLDER MAPPING

- ? What interest do they have in the outcome of your work? Is it positive or negative?
- ? How are they likely to feel about and react to your project?
- ? What is the best way to engage and communicate with them?
- ? What motivates them most of all?
- ? What information do they want from you and how do they wish to receive it?
- ? What would encourage them to support your project?



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Stakeholder Analysis Matrix [Compatibility Mode] - Microsoft Excel

File Home Insert Page Layout Formulas Data Review View

Become More Strategic
DEMAND METRIC

| Product: Sale of Product ABC | | Influence Level | | Buy In | | Support Quotient | |
|------------------------------|----------------------|-----------------|-------|-----------------|-------------|--------------------|---------|
| Stakeholder Role | Type | Interest | Power | Current Support | Flexibility | Influence x Buy In | |
| John Smith, VP Marketing | End User | 8 | 4 | High | 90% | 7.45 | Develop |
| Sally James, VP Sales | Executive Influencer | 7 | 8 | High | 50% | 8.10 | Provide |
| Jim Shepard, CIO | Technical Buyer | 6 | 9 | Moderate | 70% | 6.85 | Reassur |
| Tina Johnson, Dir. Marketing | End User | 7 | 5 | High | 70% | 7.35 | Demons |
| Tom Stewart, HR Manager | Executive Influencer | 2 | 3 | Low | 30% | 2.15 | Educate |
| Rick Davis, IT Manager | Technical Influencer | 9 | 6 | High | 90% | 8.30 | Have Ri |
| Wendy Tam, Project Manager | Project Team | 1 | 1 | High | 60% | 4.90 | Provide |
| Stakeholder 8 | Technical Buyer | 1 | 1 | Low | 60% | 1.75 | |
| Stakeholder 9 | Technical Buyer | 1 | 9 | Low | 60% | 4.55 | |
| Stakeholder 10 | Technical Buyer | 1 | 1 | Low | 10% | 1.00 | |
| Stakeholder 11 | Technical Buyer | 1 | 1 | Low | 20% | 1.15 | |

Ready



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Sustainable Balanced ScoreCard

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Sustainable Balanced ScoreCard

| Criteria | Frameworks | |
|--|---|---|
| | Sustainability BSC | GRI Reporting Guidelines |
| Sustainability issues | Can be included into the SBSC | Provide a great scope of integration |
| Function | Is a tool to track and evaluate the strategy accomplish level | Their main function is communicate the activities and sustainable performance of the organization |
| Corporate strategy | Start with a strategically analysis: mission, vision and objectives | Is part of one standard disclosure helping the understanding of business performance |
| Stakeholders | Permit the stakeholders inclusion into the business strategy | Try to make clear the most relevant topics of the main interest parts to communicate the achievements of the organization |
| Orientation | External orientation to the stakeholders satisfaction as a key for the organization | To stakeholders communication of relevant topics |
| Financial and non financial information | Balance financial information and non-financial information. | Combine financial and non-financial information to report |

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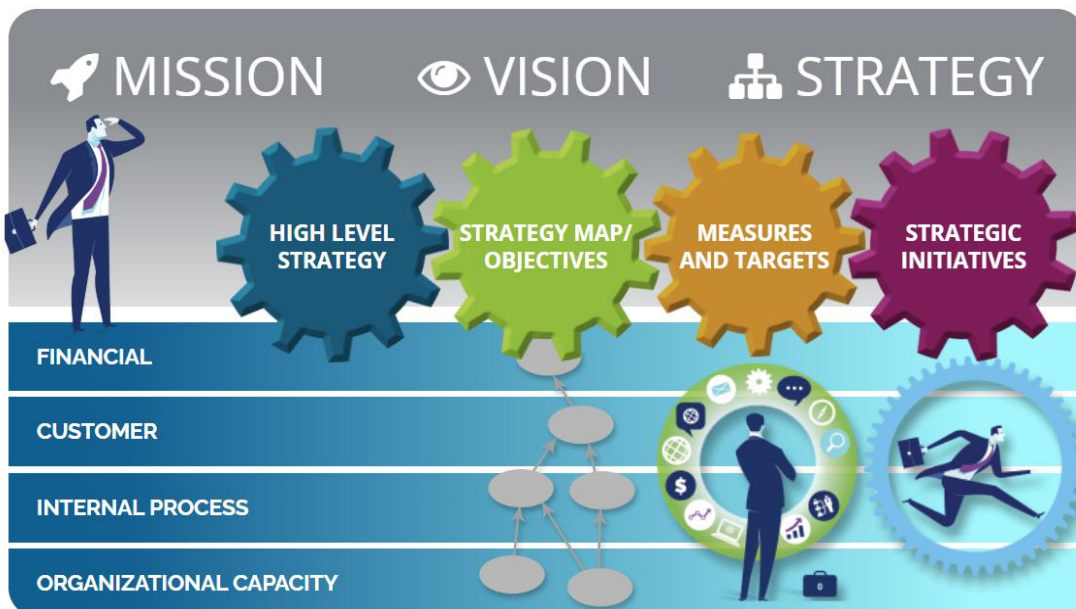
Balanced ScoreCard

What is a Balanced Scorecard (BSC)?

It is a strategic planning and management system, balancing financial and non-financial goals, indicators and targets.

Organizations use BSCs to:

- Communicate and discuss strategy
 - Align the day-to-day work with strategy
 - Prioritize projects, products and services
 - Measure and monitor progress towards strategic targets
- Gives a balanced view of performance - holistic system for managing strategy.
- Framework used to connect the vision and mission of the organization with its strategic goals, the projects and programs that people are working on and the measurements being used to track success (KPIs).

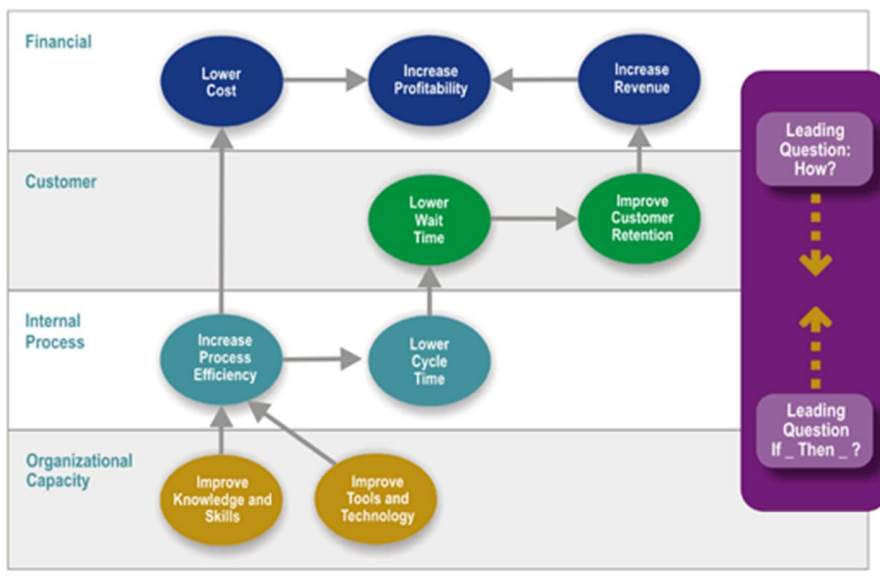


BSC – Perspectives & Strategic Goals



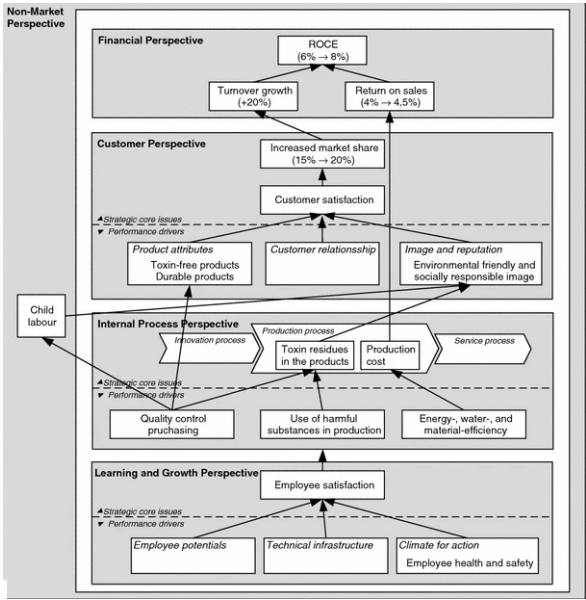
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Balanced ScoreCard – Strategic Map



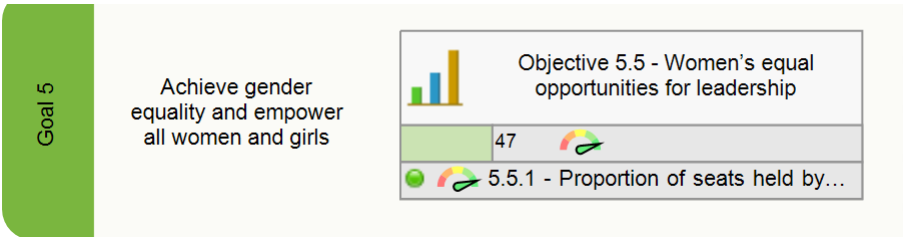
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Sustainable Balanced ScoreCard



Hansen and Schaltegger (2016), The Sustainability Balanced Scorecard: A Systematic Review of Architectures

Sustainable Balanced ScoreCard




Implementing Strategy

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Implementing Strategy


Journal of Management
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The Corporate Governance of Environmental Sustainability: A Review and Proposal for More Integrated Research

Ruth V. Aguilera 
Northeastern University and Universitat Ramon Llull

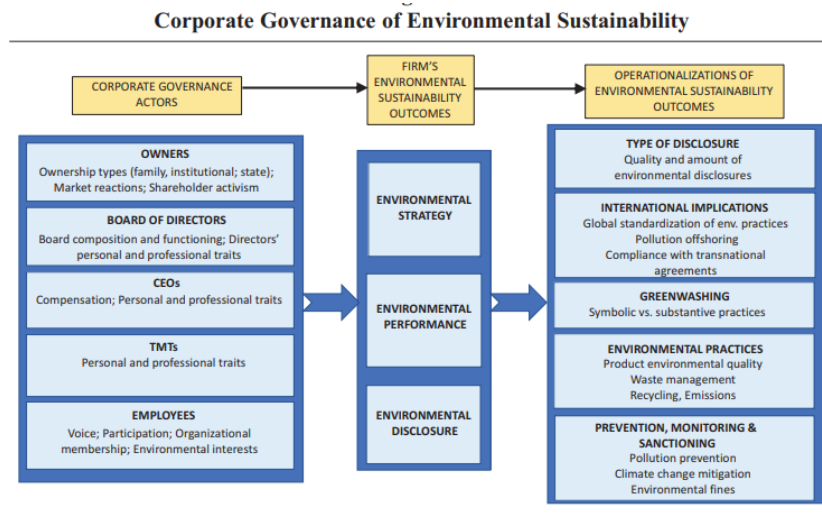
J. Alberto Aragón-Correa
University of Granada

Valentina Marano
Northeastern University

Peter A. Tashman 
University of Massachusetts Lowell

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Implementing Strategy



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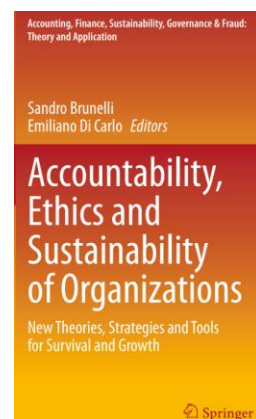
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Implementing Strategy

Table 5.2 The principle-based nature of the guidelines

| Principles | Explanation |
|---|---|
| "Disclose material information" principle | <ul style="list-style-type: none"> Firms are expected to provide information whose omission or misstatement could influence decisions that relevant stakeholders make on the basis of that disclosure. Companies should disclose the impacts, both positive and negative, of their business activities. In order to assess information's materiality, corporations have to examine their context as well as the specific circumstances their business has been experiencing. The Guidelines list a number of relevant factors for the materiality assessment (The European Commission 2017, p. 6): business model, strategy and principal risks; main sectoral issues; interests and expectations of relevant stakeholders; impact of the activities; public policy and regulatory drivers. |
| "Strategic and forward-looking" principle | <ul style="list-style-type: none"> The non-financial statement is expected to provide insights into the short-term, medium-term, and long-term implications of the information reported. Forward-looking information is particularly valuable since it enables users to measure the company's progress toward achieving long-term objectives. |
| "Stakeholder orientated" principle | <ul style="list-style-type: none"> When preparing their non-financial statement, companies should meet the expectations of the overall stakeholders' set, including investors, workers, consumers, suppliers, customers, local communities, public authorities, vulnerable groups, social partners, and civil society (The European Commission 2017, p. 9). |

Source: Authors' Elaboration



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Implementing Strategy

Conduct a Materiality Analysis

Before you begin, it is essential to understand **which sustainability issues are most relevant** to your organisation and your stakeholders. A **materiality analysis** will help you identify and prioritise these issues, providing a solid foundation for your sustainability strategy.

Establish a Sustainability Vision and Objectives

With a clear understanding of your most important sustainability issues, you can now set **your sustainability vision and define your goals**.

These should be aligned with the results of your materiality analysis and may cover areas such as emissions reduction, energy efficiency, waste management or social responsibility.



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Implementing Strategy

Developing Specific Actions and Targets

Based on your objectives and your assessment of your starting point, you can now develop **specific actions and targets for each relevant sustainability issue**. These actions should be measurable and have a defined timeframe for implementation.

Assign Responsibilities

To ensure that your strategy is implemented effectively, you must assign responsibilities to the appropriate individuals or teams in your organisation. It should be clear **who is responsible for implementing each action**.



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Implementing Strategy

Monitor and Evaluate Progress

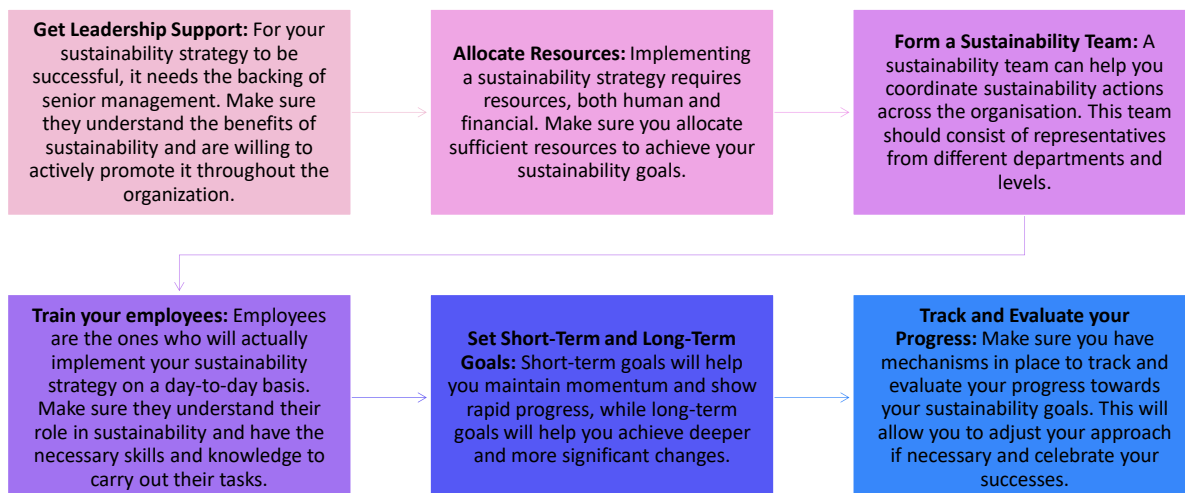
It is crucial to regularly monitor and evaluate progress towards your sustainability goals. This will allow you to make **adjustments to your strategy** as necessary and ensure that you are making progress towards your goals.

Communicating your Efforts and Achievements

Finally, communicate your sustainability efforts and achievements to your stakeholders. This can improve the perception of your organisation and encourage **greater commitment** to sustainability.

Remember, a sustainability strategy is constantly evolving and must adapt to changes in your operations, industry and environmental regulations. Regular review and updating is essential to maintain its relevance and effectiveness.

Implementing Strategy



The UN Sustainable Development Goals (SDG)

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The UN Sustainable Development Goals



Main topic: To be aware of the **importance of disclosure high quality financial and strategic information alongside with ESG performance** (resource use, human rights, health and safety, corruption, tax transparency)

Increasingly important to:

- step up accountability and transparency;
- gain a better understanding of companies' future prospects;
- draw conclusions about the quality of management;
- identify exposure to business risk;
- assess ability to leverage business opportunities;
- attract and retain long-term investors;
- engage stakeholders on sustainability-related issues;
- take advantage of innovation opportunities opened by sustainable and green economy;
- enable investors to make better informed investment decisions.



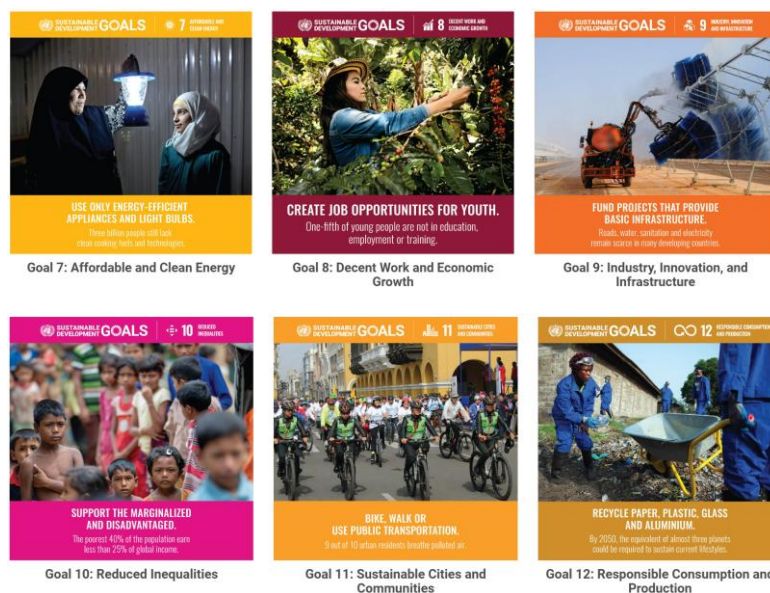
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The UN Sustainable Development Goals



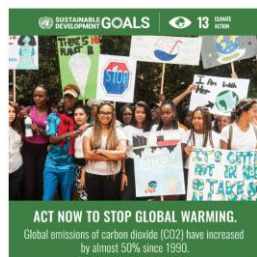
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The UN Sustainable Development Goals



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The UN Sustainable Development Goals



Goal 13: Climate Action



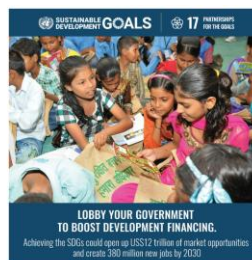
Goal 14: Life Below Water



Goal 15: Life on Land



Goal 16: Peace, Justice and Strong Institutions



Goal 17: Partnerships



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The UN Sustainable Development Goals



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The UN Sustainable Development Goals

THINGS YOU CAN DO FROM YOUR COUCH

- 💧 Test your water knowledge with our Kahoot Quiz! Quiz details can be found [here](#).
- 💧 Turn off sleeping tech. Currently, 90% of power generation is water intensive. Turning off our devices when we're not using them means less energy needs to be produced.
- 💧 Build pressure. Write to elected representatives about budgets for improving water at home and abroad.
- 💧 Create your action list – choose and share what you are going to do to help solve the water and sanitation crisis at unwater.org/bethechange
- 💧 Get informed. Explore the water and sanitation crisis, read inspirational stories from around the world at www.worldwaterday.org, read a book from the suggested [SDG Book Club](#) list, and follow your local news on water and SDG 6 online or on social media at @GlobalGoalUN.
- 💧 Use your social media voice. Amplify messages on [SDG 6](#), participate in #WorldWaterDay to generate debate and raise awareness – available at www.worldwaterday.org/share
- 💧 Shop sustainably. A typical pair of jeans takes 10,000 litres of water to produce, equal to what a person drinks in 10 years.



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The UN Sustainable Development Goals

THINGS YOU CAN DO FROM HOME

- 💧 Take five-minute showers. With 44% of household wastewater not being safely treated, taking shorter showers is a great way to save this precious resource.
- 💧 Flush safe. Fix leaking water and waste pipes, empty full septic tanks and report dumping of sludge.
- 💧 Stop polluting. Don't put food waste, oils, medicines and chemicals down my toilet or drains.
- 💧 Don't throw away edible food. An estimated 1/3 of all food produced globally is lost or goes to waste. Reducing your food wastage reduces demand on agriculture, which is one of the biggest water consumers. So, reduce food waste and save water.



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The UN Sustainable Development Goals

THINGS YOU CAN DO IN YOUR NEIGHBOURHOOD

- Take part in clean-ups of your local rivers, lakes, wetlands or beaches.
- Protect nature. Plant a tree or create a raingarden – use natural solutions to reduce the risk of flooding and store water.
- Be curious. Find out where your water comes from and how it is shared and visit a treatment plant to see how local waste is managed.
- Host a concert, play a sports event to draw attention to local water and sanitation issues.



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The UN Sustainable Development Goals

THINGS YOU COULD DO AT WORK

- Break taboos. Talk about the critical connection between toilets, water and menstruation.
- Choose a plant-based meal. It typically takes between 3,000 and 5,000 litres of water to produce 1 kg of rice, 2,000 litres for 1kg of soya, 900 litres for 1kg of wheat and 500 litres for 1kg of potatoes.
- If you are a teacher or student, organize/propose a lesson on water or get the whole school involved in water and sanitation-themed activities.
- Get the office involved. Organize a Water Event (see ideas from our Be the Change toolkit), share facts and stories on SDG 6 in your internal newsletter if available, or participate in our suggested [#WaterActions](#) as a group.



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The UN Sustainable Development Goals

The current status of the SDGs: **severely off track!**

The progress assessment carried out in 2024 reveals that the world is severely off track to realize the 2030 Agenda. Of the 169 targets, 135 can be assessed using available global trend data from the 2015 baseline to the most recent year, along with custodian agency analyses; 34 targets lack sufficient trend data or additional analysis. Among the assessable targets, only 17 per cent display progress sufficient for achievement by 2030.

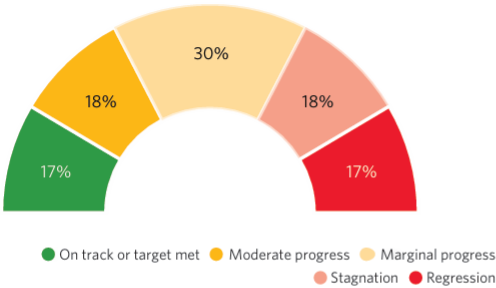
The Sustainable Development Goals Report
2024



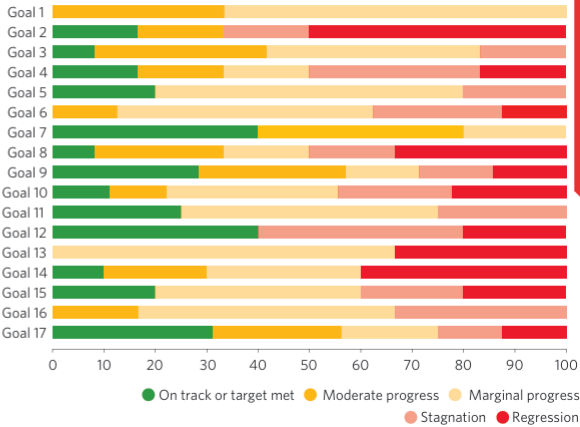
229

The UN Sustainable Development Goals

Overall progress across targets based on 2015–2024 global aggregate data

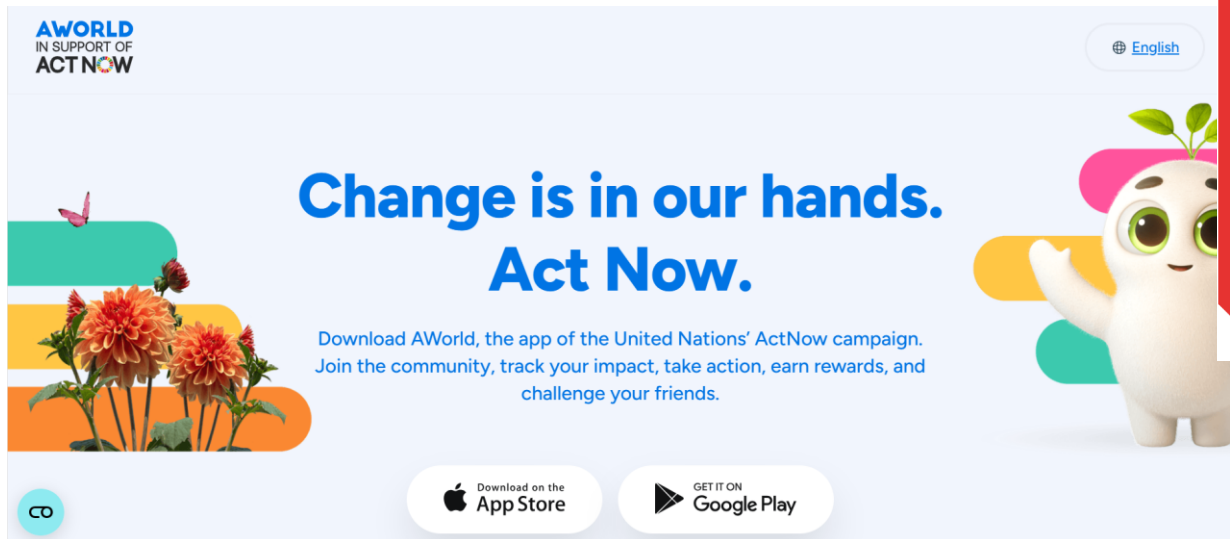


Progress assessment for the 17 Goals based on assessed targets, by Goal (percentage)



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The UN Sustainable Development Goals



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English

Change is in our hands. Act Now.

Download AWorld, the app of the United Nations' ActNow campaign.
Join the community, track your impact, take action, earn rewards, and
challenge your friends.

Download on the
App Store

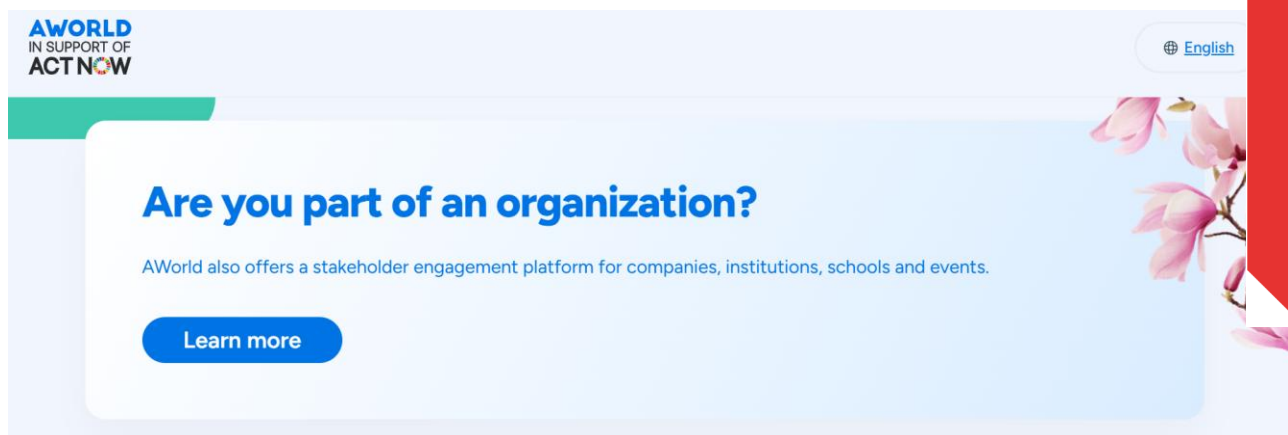
GET IT ON
Google Play

[AWorld for Act Now](#)



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ACTNOW

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Are you part of an organization?

AWorld also offers a stakeholder engagement platform for companies, institutions, schools and events.

Learn more



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The UN Sustainable Development Goals

17 Goals for People, for Planet

World leaders came together in 2015 and made a historic promise to secure the rights and well-being of everyone on a healthy, thriving planet when they adopted the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs).

The Agenda remains the world's roadmap for ending poverty, protecting the planet and tackling inequalities. The 17 SDGs, the cornerstone of the Agenda, offer the most practical and effective pathway to tackle the causes of violent conflict, human rights abuses, climate change and environmental degradation and aim to ensure that no one will be left behind.

The SDGs reflect an understanding that sustainable development everywhere must integrate economic growth, social well-being and environmental protection.



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ESG Indicators

‘Indicators of sustainable development need to be developed to provide solid bases for decision-making at all levels and to contribute to a self-regulating sustainability of integrated environment and development systems’
(UN, Agenda 21, Chapter 40.4)



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The UN Sustainable Development Goals

1. To which SDG do you identify the most?
2. What can you do as an individual to comply with that SDG?
3. What can you do in your organization to comply with SDG?



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Research

- The packaging material and the claim both had a significant influence on young consumers' sustainability perceptions, and these perceptions extended to perceptions of various product attributes (e.g., healthiness, quality).
- When all products cost the same, participants were more likely to choose a glass bottle (i.e., 81%) than a plastic bottle, and a bottle with the recycled content claim (i.e., 79%) than a bottle without this claim.
- However, these preferences dropped significantly when a price premium was attached to these packaging variations.

Hallez, L., Spruyt, B., Boen, F. and Smits, T. (2024), "How consumers value sustainable packaging: an experimental test combining packaging material, claim and price", *British Food Journal*, Vol. 126 No. 9, pp. 3566–3583, doi: 10.1108/BFJ-01-2024-0069.



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Incorporate SDGs into Strategy

Received: 20 February 2021 | Accepted: 19 January 2023
DOI: 10.1111/ijmr.12331

SPECIAL ISSUE



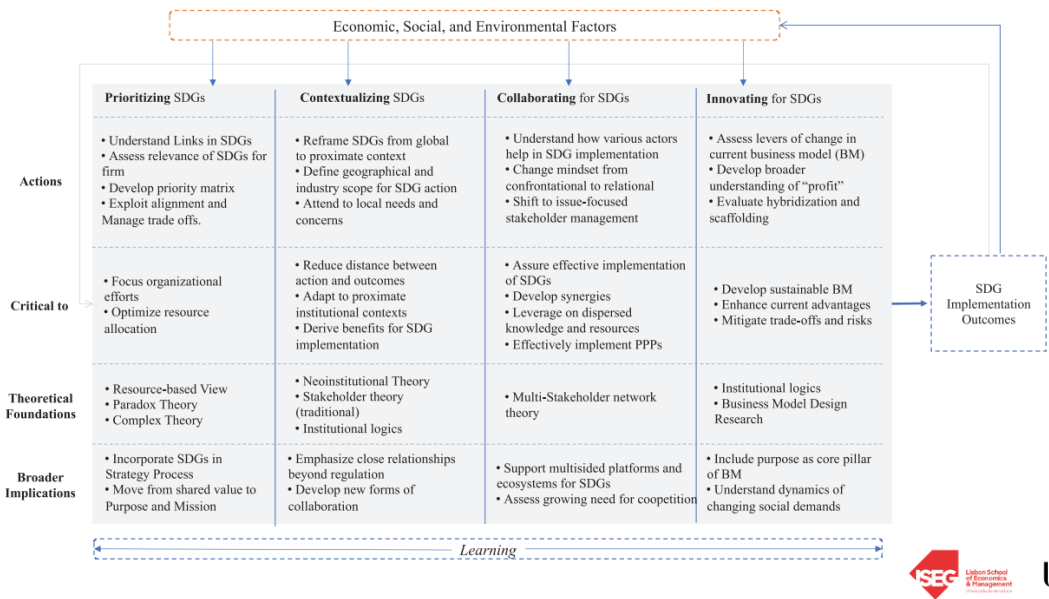
How can research contribute to the implementation of sustainable development goals? An interpretive review of SDG literature in management

Pascual Berrone¹ | Horacio E. Rousseau² | J.E. Ricart³ | Esther Brito⁴ | Andrea Giuliadori⁵



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Incorporate SDGs into Strategy



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Incorporate SDGs into Strategy

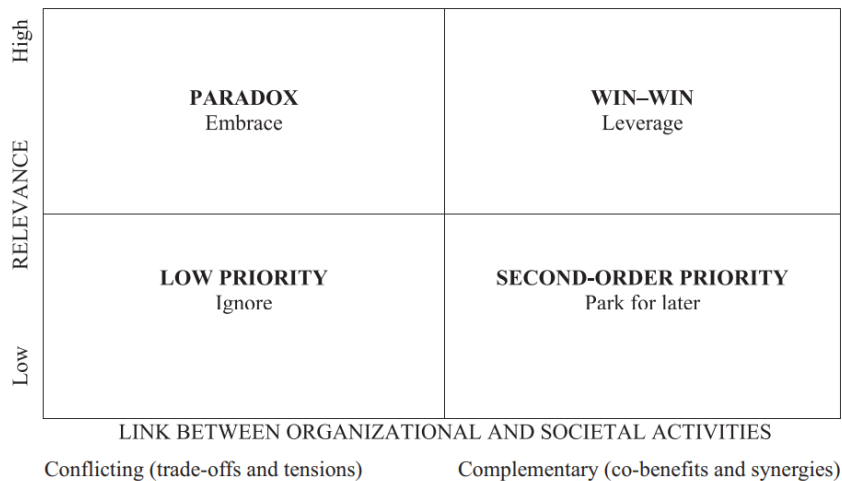


FIGURE 3 Prioritization matrix for United Nations sustainable development goals.



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Incorporate SDGs into Strategy



Organizations can integrate the UN's SDGs into their strategies by adopting a hands-on approach and using scientifically informed insights to strengthen implementation protocols.



Effective guidelines should consider trade-offs and establish conditions for collaboration, especially in communities that may distrust firms' efforts.



The process involves four stages: formulating strategies that include SDG issues, understanding proximate contexts, acknowledging the need for collective efforts, and redesigning business models to account for social impacts.



This model is not comprehensive and requires additional steps like measuring SDG achievement and addressing micro-level decision points.



Adopting SDGs is a transformational process that entails risks, but inaction can lead to reputational costs and missed opportunities for genuine societal impact.



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SDG Compass



Figure 3 – The five steps of the SDG compass

Source: SDGcompass.org



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SDG Compass

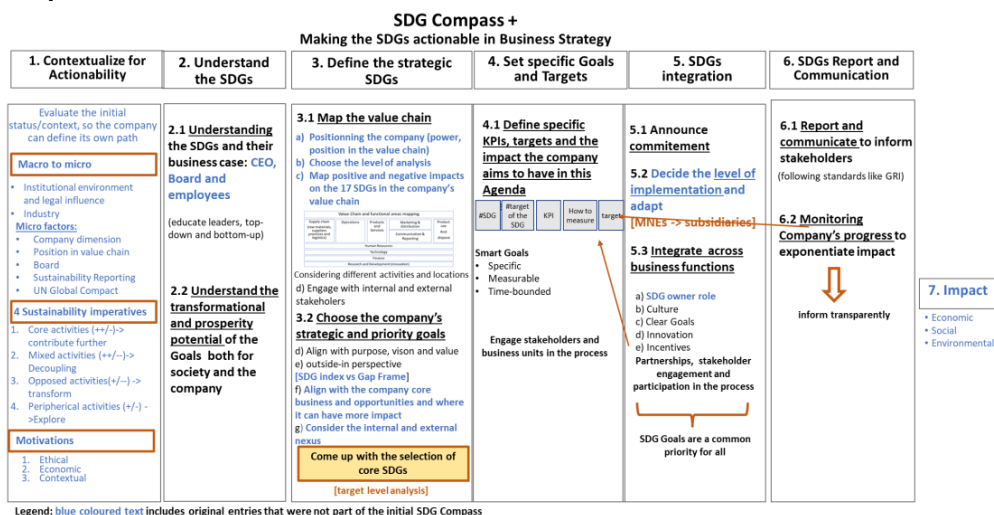


Figure 4 – SDG Compass + integrated framework: Making the SDGs actionable in Business Strategy

Pires de Almeida, A.F., van Tulder, R., & Rodrigues, S. (2023). 'Walking the Talk: Making the SDGs Core Business – An Integrated Framework'. In: Van Tulder, R., Giuliani, E., & Álvarez, I. (Eds.), International Business and Sustainable Development Goals. Progress in International Business Research, Vol. 17 (pp. 49–82). Bingley: Emerald Publishing. <https://doi.org/10.1108/S1745-886220230000017004>



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Examples

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ISEG



Sustainable Campus

The campus is the space where part of our students' education process takes place. For this reason, it is essential that it is an example of sustainable practices, both in behavioural, technological and logistical terms. ISEG's commitment is to make our campus carbon neutral and an example of green innovation by 2050.

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ISEG

Energy Efficiency

Energy efficiency on the ISEG campus refers to the rational use of energy in all areas of the campus and the adoption of measures such as the implementation of new technological solutions for monitoring consumption, more energy-efficient appliances, the use of more efficient lighting systems and changing the behaviour of members of the community in relation to energy consumption.

Energy efficiency significantly reduces energy consumption and greenhouse gas emissions, thus contributing to environmental preservation and energy sustainability.

Learn more →



Water Consumption

Water consumption on the ISEG campus is being optimised to promote rational use in all areas. To this end, new technological solutions are being implemented to monitor consumption, using more efficient appliances in terms of water use and encouraging a change in the behaviour of members of the community in relation to water consumption.

Water efficiency significantly reduces water consumption and associated waste, thus contributing to the preservation of water resources and environmental sustainability.

Learn more →



ISEG

Sustainable Purchasing

Since 2022 ISEG adopted its Sustainable Purchasing Policy, it allows the reduction of the environmental impact of our procurement activities for goods and services.

By choosing products and services that are produced more sustainably, with recycled or renewable materials, or that have less environmental impact during their useful life we are contributing to the environment and meeting sustainability targets. We take a more conscious approach to procurement so that we can inspire other organisations to do the same and contribute to necessary changes.



Reduction of CO2 Emissions

ISEG constantly seeks to achieve the emission targets set nationally and internationally, and also the objectives of ECOAP 2030. The first step to start this transition was to calculate its Greenhouse Gas (GHG) emissions and draw up an action plan to achieve carbon neutrality by 2030.

For this purpose, ISEG's organisational carbon footprint was accounted for the base year 2019, and the subsequent years 2020 and 2021. The Action Plan encompasses a set of measures for the reduction of scope 1, 2 and 3 emissions and a compensation plan for the remaining emissions, and that will enable the achievement of this goal.



ISEG



ISO 14001 certification

ISEG obtains ISO 14001 - Environmental Management certification and maintains Quality Management System certification.

Find out more →

Recycling on Campus

ISEG is committed to reducing its production of undifferentiated waste and improving its collection and separation of recyclable waste, contributing to the circular economy within the campus.



Awareness Campaigns

ISEG regularly promotes awareness campaigns among members of the community, with the aim of reducing waste generation and encouraging the practice of separating materials correctly.



Solid Waste

The treatment of solid waste on the ISEG campus is carried out in a responsible and systemic manner. The campus has specific rubbish bins for each type of waste, such as paper, plastic and metal. All the waste is collected daily by a team that transports it to ISEG's central recycling containers.



Other waste

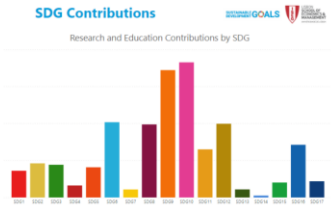
Paper and cardboard, light bulbs and batteries are collected and delivered for specialist collection. Waste Electrical and Electronic Equipment (WEEE) is stored securely and sent for recycling.



ISEG



ISEG tem contribuído mais para os ODS: 6, 8, 9, 10 e 12



Devido à agenda Europeia do Green Deal seria interessante que o ISEG pudesse aumentar os seus contributos nos ODS:

- 13 Ação Climática
- 15 Vida na Terra

Outros temas também relevantes na agenda internacional associada com a gestão:

- 4 Educação de qualidade
- 5 Igualdade de género

ODS Prioritários para o ISEG são: 5, 6, 8, 9, 10, 12, 13, 15



ISEG

Your master's final work could be worth **1500€**

ESG'25 Award

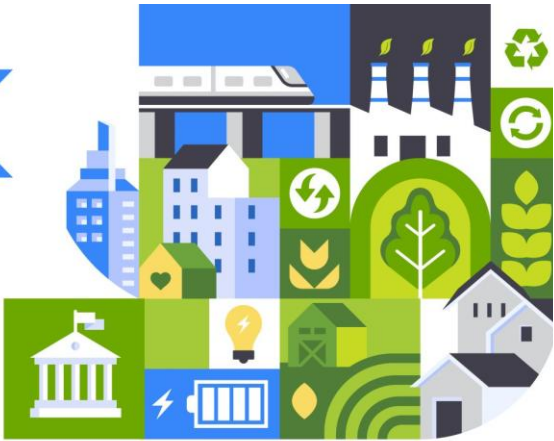
An award for the best master's final work (TFM) written in Portuguese and English

Topic

How to support companies in implementing sustainable ESG management that maximises their resilience and promotes a more sustainable society.

Applications until 19th September 2025

Check the regulations.



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Tesla

United Nations SDG Alignment Goals

| UN SDGs | Focus Areas |
|---|--|
| No Poverty | Responsible Sourcing |
| Zero Hunger | Child Labor & Forced Labor |
| Good Health and Well-Being | Waste Management & Recycling, Circularity Product Quality & Safety Responsible Sourcing |
| Quality Education | External Stakeholder Engagement |
| Gender Equality | Respectful Workplace & Equal Opportunities |
| Clean Water and Sanitation | Water Use & Management |
| Affordable and Clean Energy | Inclusive Energy Transition |
| Decent Work and Economic Growth | Product Quality & Safety Responsible Sourcing Grievance Mechanisms & Access to Remedy Responsible Data & Cybersecurity Responsible AI Inclusive Energy Transition Occupational Health & Safety Talent Management & Employee Wellbeing Employee Engagement External Stakeholder Engagement Respectful Workplace & Equal Opportunities |
| Industry, Innovation and Infrastructure | Government Relations Policy |

| UN SDGs | Focus Areas |
|--|---|
| Reduced Inequalities | Government Relations Policy Inclusive Energy Transition |
| Sustainable Cities and Communities | Talent Management and Employee Wellbeing |
| Responsible Consumption and Production | Waste Management & Recycling, Circularity Air Quality & Reducing Toxic Emissions Product Quality & Safety Responsible Data & Cybersecurity Responsible AI Occupational Health & Safety |
| Climate Action | Biodiversity Climate Change & Risk Management Renewable Energy & Energy Efficiency Inclusive Energy Transition |
| Life Below Water | Biodiversity Waste Management & Recycling, Circularity |
| Life on Land | Waste Management & Recycling, Circularity |
| Peace, Justice and Strong Institutions | Business Ethics & Anti-Corruption Government Relations Policy Grievance Mechanisms & Access to Remedy Child Labor & Forced Labor Respectful Workplace & Equal Opportunities |
| Partnerships for the Goals | Government Relations Policy |



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EDP






<https://www.edp.com/en/sustainability/sdg>



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EDP

ESG Performance at a glance

| INDICATOR | | Unit | 2023 | 2022 | Δ % | Target 2026 | Target 2030 |
|--|--|-----------------------|------|------|---------|----------------------------|-------------|
|  Environment | Renewables generation | % | 87% | 74% | +13p.p. | 93% | 100% • |
| | Capex aligned with EU taxonomy | % | 96% | 96% | +0p.p. | >98% | 100% |
| | Scope 1 & 2 Emissions intensity | gCO ₂ /kWh | 81 | 160 | -50% | 36 | 8 • |
| | Total recovered waste materials | % | 96% | 95% | +2p.p. | 90% | >90% • |
|  Social | Female overall | % | 29% | 27% | +1p.p. | 31% | 35% |
| | Global investment in communities ¹ | € m | 34 | 32 | 8% | ~€200 | >€300 |
| | Accident Frequency Rate ² | Fr | 2.07 | 1.84 | 13% | 1.42 | <1 |
|  Governance | Female on Leadership | % | 29% | 28% | +1p.p. | 31% | 35% |
| | ESG & equity linked compensation for Top Management ³ | | √ | √ | | √ | √ |
| | Cybersecurity | bitsight rating | 810 | 810 | 0% | Keep advanced ⁴ | |
| | Top quartile in ESG rating Performance ⁵ | | √ | √ | | √ | √ |



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Unilever

Our strategy & Growth Action Plan

We are stepping up our execution to deliver improved performance – focusing on faster growth, productivity and simplicity, and performance culture.

Our purpose

Making sustainable living commonplace

Our financial ambition

Consistent and competitive growth driving top third Total Shareholder Return^(a)

Where to play

Build a consistently high growth **portfolio**

Win with our **brands**, powered by unmissable superiority

Accelerate growth in key **markets** and **categories**^(b)

Lead in key **channels**



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Unilever



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Examples

1. Work in groups and find one company that complies with SDG.
2. With what SDG does it identify?
3. What does it do?



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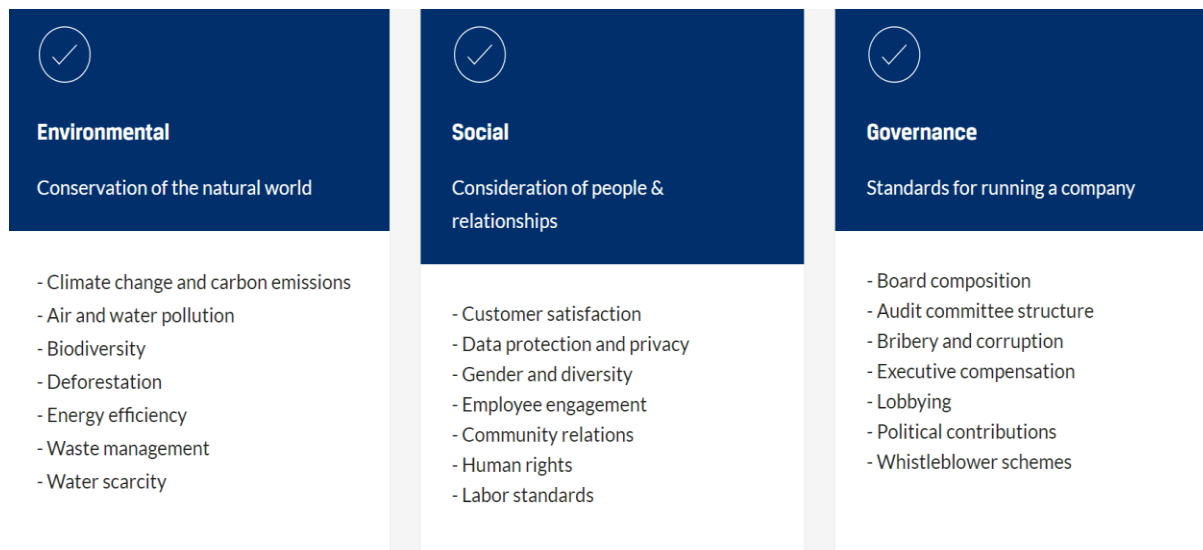
Master's in Accounting

Sustainability, Accountability and Ethics

Rita Fuentes Henriques
Pedro de Almeida Fernandes

Class 7

ESG metrics



ESG metrics

- 1 ESG factors are often interlinked
- 2 ESG factors can often be measured, but it can be difficult to assign them a monetary value
- 3 ESG investing grew out of investment philosophies such as Socially Responsible Investing (SRI) but there are differences – exclusionary filters versus inclusive criteria

Contrasting and comparing sustainable development indicator metrics. Available from:

https://www.researchgate.net/publication/223804576_Contrasting_and_comparing_sustainable_development_indicator_metrics [accessed Sep 09 2020].

Sustainable Balanced ScoreCard

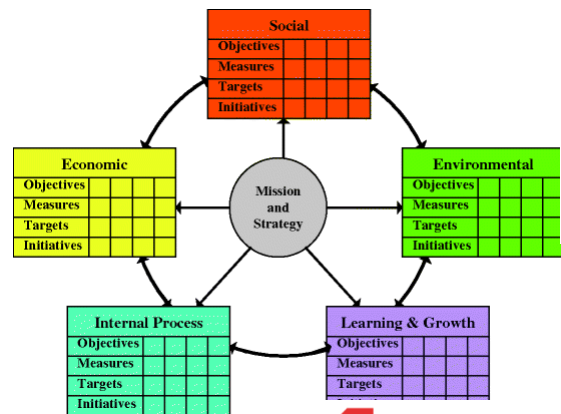
Some sustainable KPIs:

Environmental perspective:

- Resources consumption
- Emission to water, natural environment and air
- Reuse and recycle rate

Social perspective:

- Supplier's sustainability performance
- Job creation
- Employee's benefits
- Health and safety performance

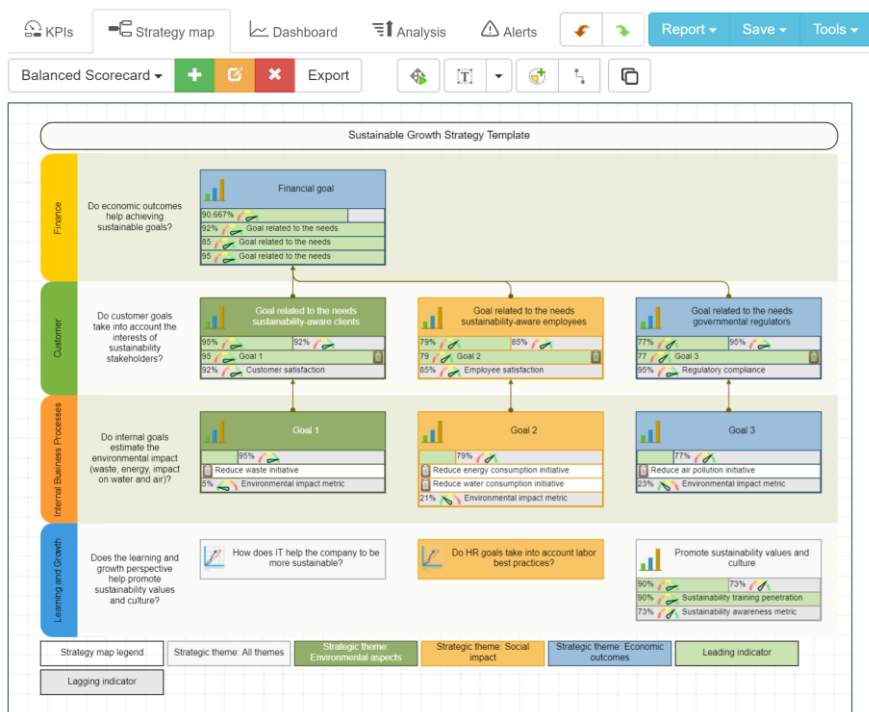


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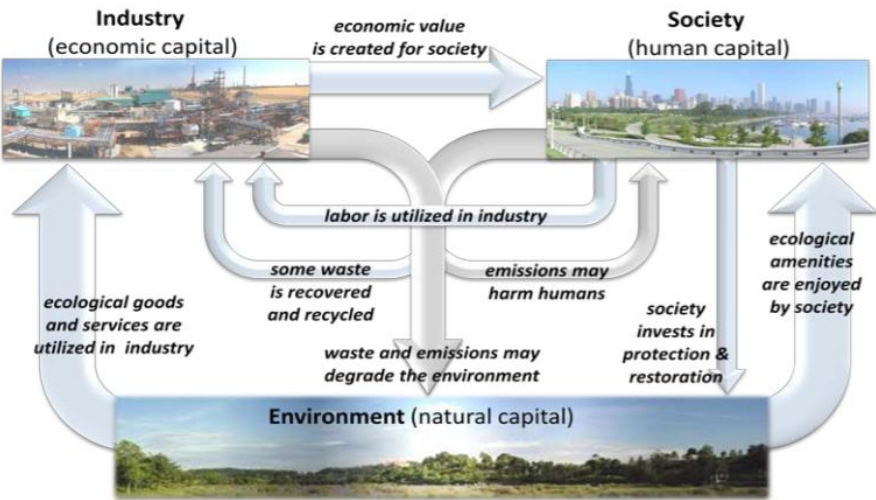
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Systems taxonomy for resource flow indicators



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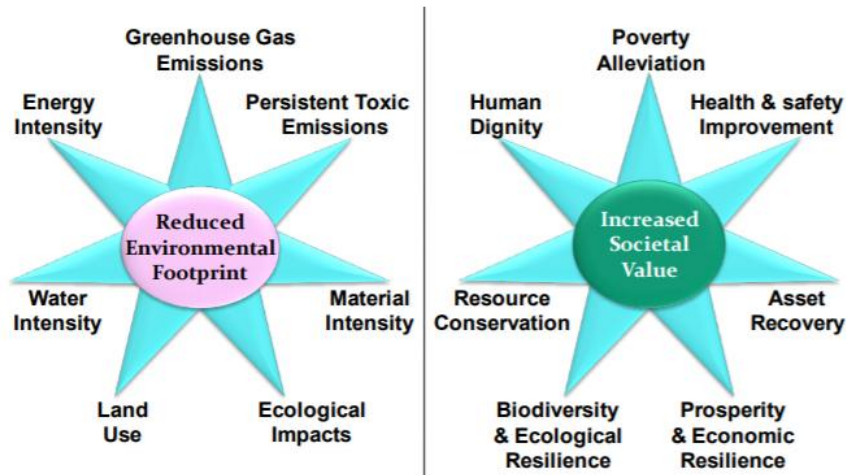
Major Categories of System-Based Indicators

| Indicator Category | Indicator Types | National Scale Examples | Community Scale Examples |
|-----------------------------|--|--|--|
| Resource Flow Indicators | <ul style="list-style-type: none">VolumeIntensityRecoveryImpactQuality | <ul style="list-style-type: none">Greenhouse gas emissionsMaterial flow volumeResource depletion rate | <ul style="list-style-type: none">Greenhouse gas emissionsMaterial flow volumeWater treatment efficacyRecycling rateLand use |
| Value Creation Indicators | <ul style="list-style-type: none">ProfitabilityEconomic OutputIncomeCapital InvestmentHuman Development | <ul style="list-style-type: none">Cost (reduction)Fuel efficiency (gain)Energy efficiency (gain) | <ul style="list-style-type: none">Cost (reduction)Fuel efficiency (gain)Energy efficiency (gain)Vehicle use (miles per capita) |
| Adverse Outcome Indicators | <ul style="list-style-type: none">ExposureRiskIncidenceImpactLossImpairment | <ul style="list-style-type: none">Health impacts of air pollutionPublic safetyLife cycle footprint of energy use | <ul style="list-style-type: none">Health impacts of air pollutionPublic safetySewer overflow frequency |
| System Condition Indicators | <ul style="list-style-type: none">HealthWealthSatisfactionGrowthDignityCapacityQuality of Life | <ul style="list-style-type: none">Air qualityWater qualityEmploymentHousehold income | <ul style="list-style-type: none">Air & water qualityLocal employmentLocal household incomeHousing DensityInfrastructure durabilityCommunity educational equity |

EPA (2012)

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Typical categories of sustainability indicators



EPA (2012)



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Examples of Sustainability Indicators Used Worldwide

Poverty

- Unemployment rate
- Poverty index
- Population living below poverty line

Population Stability

- Population growth rate trend
- Population density

Human Health

- Average life expectancy
- Access to safe drinking water
- Access to basic Sanitation
- Infant mortality rate

Living Conditions

- Urban population growth rate
- Floor area per capita
- Housing cost

Coastal Protection

- Population growth
- Fisheries yield
- Algae index

Agricultural Conditions

- Pesticide use rate
- Fertilizer use rate
- Arable land per capita
- Irrigation % of arable land

Ecosystem Stability

- Threatened species
- Annual rainfall

Atmospheric Impacts

- Greenhouse gas emissions
- Sulfur oxide emissions
- Nitrogen oxides emissions
- Ozone depleting emissions

Generation

- Municipal waste
- Hazardous waste
- Radioactive waste
- Land occupied by waste

Consumption

- Forest area change
- Annual energy consumption
- Mineral reserves
- Fossil fuel reserves
- Material intensity
- Groundwater reserves

Economic Growth

- GNP
- National debt/GNP
- Average income
- Capital imports
- Foreign investment

Accessibility

- Telephone lines per capita
- Information access

Sources:
United Nations, Indicators of Sustainable Development
World Bank, World Development Indicators

EPA (2012)



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ESG metrics



EFFAS THE EUROPEAN FEDERATION
OF FINANCIAL ANALYSTS SOCIETIES

| | E Environmental | S Social | G Governance | V Longterm Viability |
|--|--|---|---|-------------------------------------|
| General: ESGs which apply to all industry-groups | ESG 1 Energy efficiency ESG 2 GHG emissions | ESG 3 Staff turnover ESG 4 Training & qualification ESG 5 Maturity of Workforce ESG 6 Absenteeism rate | ESG 7 Litigation risks ESG 8 Corruption | ESG 9 Revenues from new products |



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Integrated reporting framework

What is Integrated Reporting?

'A concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.'

Paul Druckman, CEO of IIRC, 2013



HOW VALUE IS CREATED?

Communicate the full
range of factors that
materially affect value

The International Integrated Reporting Council (IIRC) defines an integrated report as one that 'brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operate



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Integrated reporting framework



Concise communication on how organizational strategy and management lead to value creation:



www.youtube.com/watch?v=EFm0sKeBLh0

<https://www.youtube.com/watch?v=Hx4dvrlunpw>



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Integrated reporting framework

Interrelates financial with non-financial reporting to provide an **integrative and comprehensive overview of the business** activities of a company, their results, and consequences for people and the environment.

While sustainability reports and nonfinancial reports can be disclosed autonomously, an integrated report represents a **single report** that includes not only social and ecological but also economic aspects. In that sense, integrated reports are comprehensive, reflecting a **holistic perspective** on business activity.



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Integrated reporting framework

What does the organization do and what are the circumstances under which it operates?

How does the organization's governance structure support its ability to create value in the short, medium and long term?

What is the organization's business model?

What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?



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Integrated reporting should provide:

Insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term and to its use of and effects on the capitals.

Insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.

Information about matters that substantively affect the organization's ability to create value over the short, medium and long term.



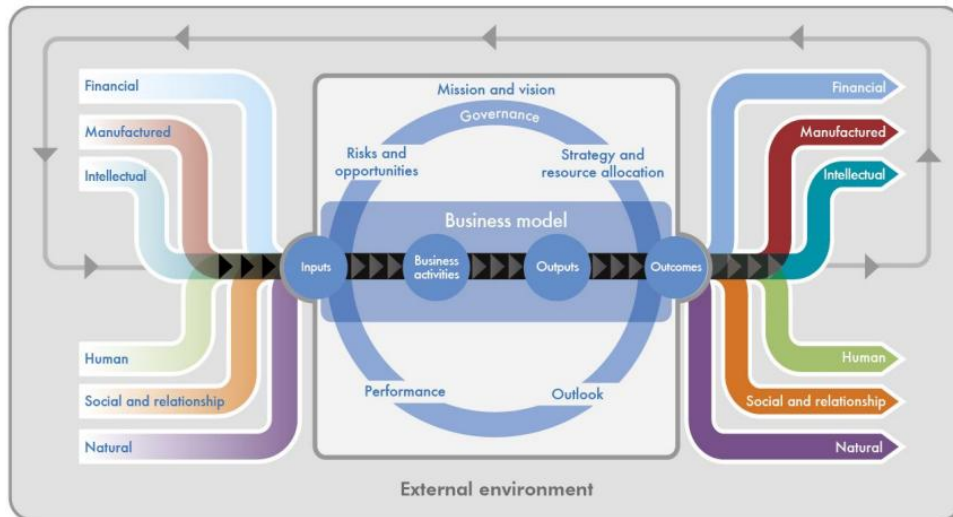
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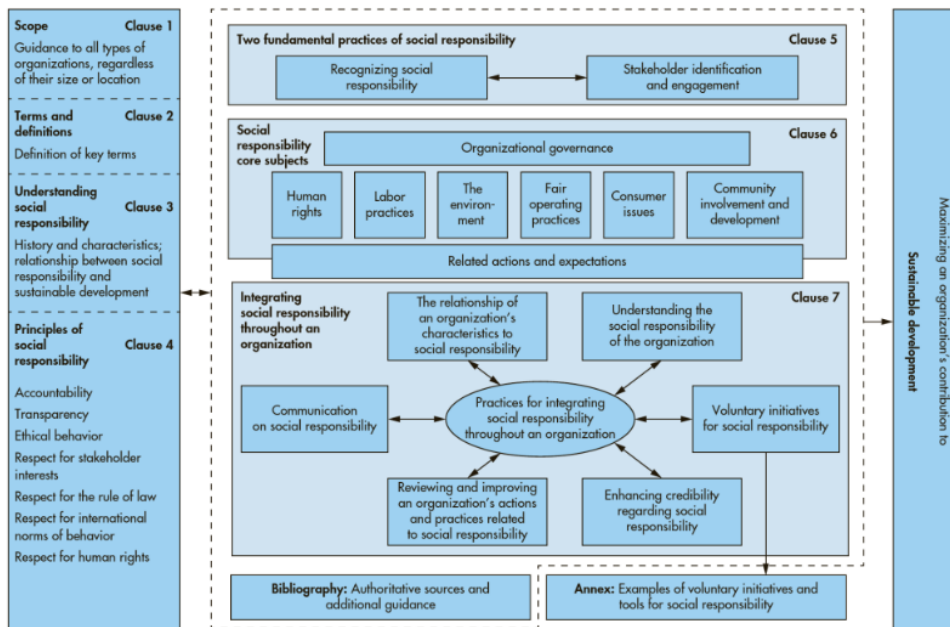
Integrated reporting should provide:



Holistic picture of dependencies between the factors that affect organization's ability to create value over time.

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FIGURE 7.5 Schematic Overview of ISO 26000: Guidance on social responsibility³¹



Brooks, L. Dunn. P. (2018),
Business & Professional
Ethics for Directors,
Executives & Accountants

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What to report as non-financial information?

DISCLOSURE RECOMMENDATIONS (CONTINUED)

The four recommendations are supported by **specific disclosures** organizations should include in financial filings or other reports to provide decision-useful information to investors and others.

| Governance | Strategy | Risk Management | Metrics and Targets |
|--|---|--|---|
| Disclose the organization's governance around climate-related risks and opportunities. | Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material. | Disclose how the organization identifies, assesses, and manages climate-related risks. | Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material. |
| Recommended Disclosures | Recommended Disclosures | Recommended Disclosures | Recommended Disclosures |
| a) Describe the board's oversight of climate-related risks and opportunities. | a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term. | a) Describe the organization's processes for identifying and assessing climate-related risks. | a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. |
| b) Describe management's role in assessing and managing climate-related risks and opportunities. | b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning. | b) Describe the organization's processes for managing climate-related risks. | b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks. |
| | c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario. | c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management. | c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets. |

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Master's in Accounting

Sustainability, Accountability and Ethics

Rita Fuentes Henriques
Pedro de Almeida Fernandes

Class 8

Case Danone (A)

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Assignment Questions

1. Why do companies report on the non-financial dimensions of their businesses?
2. What different frameworks and standards are available to Danone for reporting non-financial information?
3. What are the key differences between Danone's view and the IIRC's view of integrated reporting or <IR>? How important are these differences to a company's reporting process?
4. If you were Laura Palmeiro, what would you decide?

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Danone's reporting case

- Multinational food company based in Paris
- Danone has a history of social and environmental consciousness
- Danone has learned that is not enough to have internal systems and data

- **Standards:**

- Carbon Accounting
- GRI
- IIRC (pilot project)
- Danone's own integrated reporting
- Certified B Corporation – www.bcorporation.net



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Danone's reporting case

Decision:

- 1) IIRC framework
- 2) Tailored IR
- 3) Existing sustainability report

- **Insights:**

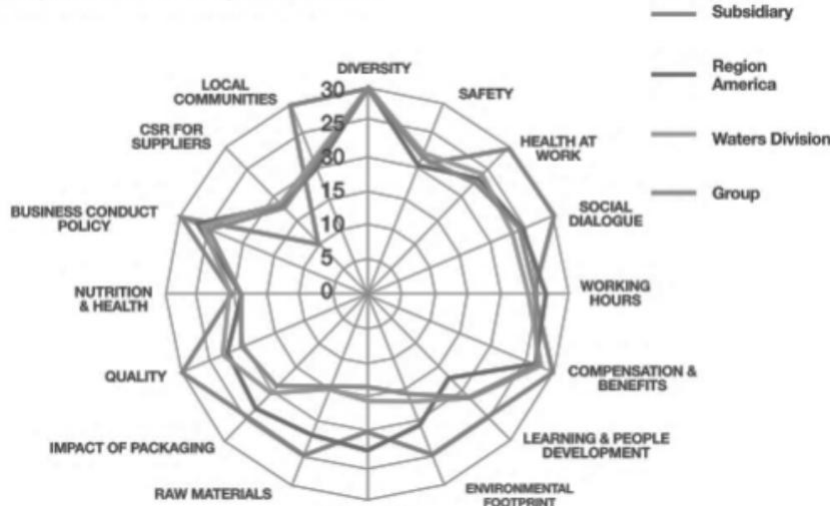
- Choosing and implementing a NFR standard
- Interrelationship between corporate culture and NFR
- Each standards has its own benefits and drawbacks
- Importance of the audience (articulate interests)



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EXHIBIT 1: THE DANONE WAY SCORECARD

Sample Danone Way Scorecard



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DETAILED RESULTS

| Fundamentals | | Policies | Points | Indicators | Points | Total |
|---------------------|-------------------------------|----------|---------|------------|--------|-------|
| DH2 | DIVERSITY | 4 | 90 | 4 | 90 | 60 |
| DH3 | SAFETY | 5 | 20 | 5 | 20 | 40 |
| DH4 | HEALTH AT WORK | 4 | 90 | 4 | 90 | 60 |
| RH1 | SOCIAL DIALOGUE | 4 | 90 | 4 | 90 | 60 |
| RH2 | WORKING HOURS | 5 | 20 | 4 | 90 | 50 |
| RH3 | COMPENSATION & BENEFITS | 4 | 90 | 4 | 90 | 60 |
| RH4 | LEARNING & PEOPLE DEVELOPMENT | 4 | 90 | 5 | 20 | 50 |
| ENV1 | ENVIRONMENTAL FOOTPRINT | 5 | 20 | 4 | 90 | 50 |
| ENV2 | ENVIRONMENTAL RISKS | 5 | 20 | 5 | 20 | 40 |
| ENV3 | RAW MATERIALS | 5 | 20 | 4 | 90 | 50 |
| ENV4 | IMPACT OF PACKAGING | 5 | 20 | 4 | 4 | 50 |
| CO1 | QUALITY | 4 | 90 | 4 | 90 | 60 |
| CO2 | NUTRITION & HEALTH | 5 | 20 | 5 | 20 | 40 |
| GOV1 | BUSINESS CONDUCT POLICY | 4 | 90 | 4 | 90 | 60 |
| GOV2 | CSR FOR SUPPLIERS | 2 | 10 | 2 | 10 | 20 |
| GOV3 | LOCAL COMMUNITIES | 4 | 90 | 4 | 90 | 60 |
| Results [illegible] | | | 990 | | 920 | 810 |
| Total out of 1000 | | | | | | 844 |
| Star Challenge | | | * * * * | | | |

Source: Company files.

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Danone's reporting case



ASSIGNMENT QUESTIONS

1. Why do companies report on the non-financial dimensions of their businesses?
2. What different frameworks and standards are available to Danone for reporting non-financial information?
3. What are the key differences between Danone's view and the IIRC's view of integrated reporting or <IR>? How important are these differences to a company's reporting process?
4. If you were Laura Palmeiro, what would you decide?



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Danone

| | Pros | Cons |
|---|--|--|
| Global Reporting Initiative (GRI) (1997) | <ul style="list-style-type: none"> • Comprehensive • Multi-stakeholder focus • Detailed information • Focuses on providing many indicators | <ul style="list-style-type: none"> • Potentially too many indicators • Difficult data gathering • Value chain assessments too complex • Advocates inclusion of sustainability factors but does not provide guidance on how |
| International Integrated Reporting Council (IIRC) (2011) | <ul style="list-style-type: none"> • Aims to place a value on intangible assets or capitals • Focuses on needs of one group of stakeholders: investors (i.e., audience is clear) • Focuses on integrating the multiple aspects of corporate performance | <ul style="list-style-type: none"> • Attempts to reduce assessments to numbers that the providers of financial capital can understand • Relegates other stakeholders to position of secondary audience |
| Sustainability Accounting Standards Board (SASB) (2012) | <ul style="list-style-type: none"> • Industry-specific • Risk-focused tool • Provides stakeholders with better insights into the types of risks faced by companies | <ul style="list-style-type: none"> • Reframes environmental, social, and governance effects in terms of how material the risks are, as defined by the U.S. Securities and Exchange Commission |
| Danone (Integrated Report) (2016) | <ul style="list-style-type: none"> • Multi-stakeholder focus • Ambitious goal: to show how everything is connected to the same goal • Greater focus on social and ecological issues | <ul style="list-style-type: none"> • Involves continuous challenges refining key performance indicators • Involves challenge of presenting integrated information for multiple stakeholders |

Source: Created by the case authors incorporating content based on Mark McElroy, "Has the GRI Consigned Itself to Irrelevance?," GreenBiz, May 22, 2013, accessed April 11, 2018, www.greenbiz.com/blog/2013/05/22/has-gri-consigned-itself-irrelevance.



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Danone

| Issue | Explanation |
|--|---|
| There could be more financial data in the report. | The integrated report does not provide financial data that can be used to gauge the magnitude of a factor's impact on Danone or how the company would track progress in that factor over time. |
| The report could do a better job of showing how the areas are connected. | The report would benefit from showing how the various factors are connected; this would allow stakeholders to see how progress—or regression—in one area can have an effect on the corporation as a whole or on another related area. |
| There could be a better assessment of risks. | Unlike SASB reporting, the integrated report does not address industry-specific risks, nor does it outline areas of improvement for Danone. The report does not point out any deficiencies that Danone needs to address. |
| The report could explain how the company engages with its stakeholders. | Given that Danone is focusing on a broad range of stakeholders, the report should attempt to explain how the company is trying to engage with them, provide them with information they need, and receive their feedback about how the company should improve. |

Source: Created by the case authors.

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Sustainability,
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Class 9

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Group Work Presentation



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Class 10

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Business Ethics – main theories and dilemmas

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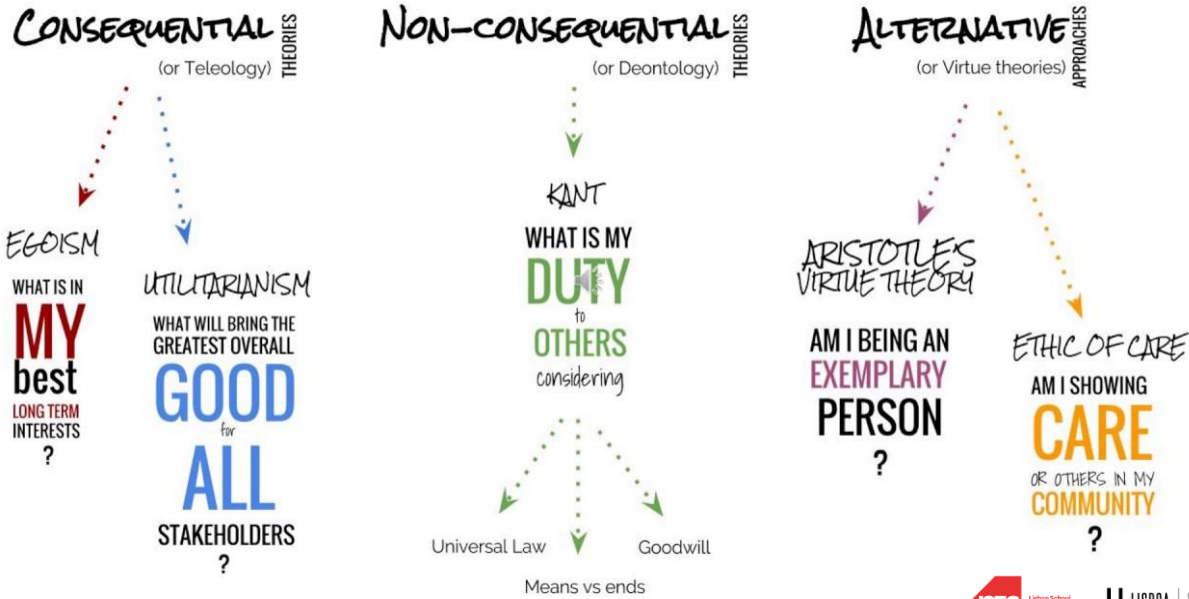
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Ethics Theories

(based on the slides of Prof.
Maria João Guedes, 2024)



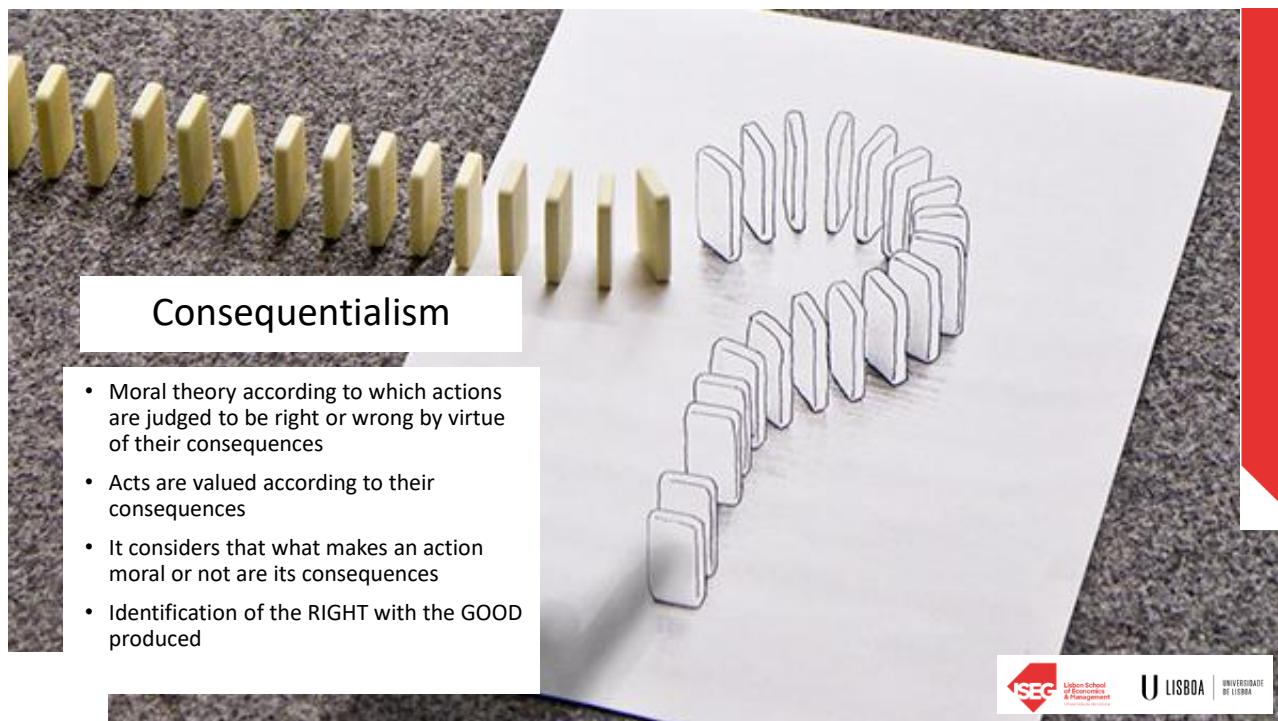
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| Theory | Main Idea | Islamic Perspective |
|-----------------------|--|--|
| Relativism theory | Ethics are relative to a particular environment. Different societies may have different ethical codes. There is no universal truth in ethical principles that can be held by all peoples at all times. | Rejected because may be a particular society culture is against Islamic principles. |
| Divine Command theory | "Ethically right" means "commanded by God", and "ethically wrong or unethically" means "forbidden by God". Religion is the only standard to identify ethics. | Accepted, but this theory was rejected in the Western literature. |
| Utilitarian theory | "Ethically right" means the action results in a greater number of utilities than could be achieved by any other actions. | Rejected because the only basis for this theory is the greatest consequences for greatest number. |
| Egoism theory | A person must always perform in his/her own interest. An action is considered to be ethically right only when it promotes a person's self-interests. | Rejected because it is against the Islamic principles of justice, helping others, and altruism. |
| Deontology theory | It underlines the duty as a basis of moral category which can be seen as a right or wrong judgment. It does not look at the consequences of action. And, there are universal ethical actions that everyone must accept. | Rejected because the theory is not clear about the source of these "universal ethics" since in Islam the only source for ethical system is the Islamic principles. |
| Virtue ethics theory | This theory focuses on what makes a good individual or person rather than what makes a good action. There are specific virtue traits that every person must have such as civility, cooperativeness, courage, fairness, friendliness, generosity, honesty, justice, loyalty, self-confidence, self-control, modesty, fairness, and tolerance. | Rejected because the only basis for this theory is virtue ethics. |

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Consequentialism

- Moral theory according to which actions are judged to be right or wrong by virtue of their consequences
- Acts are valued according to their consequences
- It considers that what makes an action moral or not are its consequences
- Identification of the RIGHT with the GOOD produced

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Consequentialism

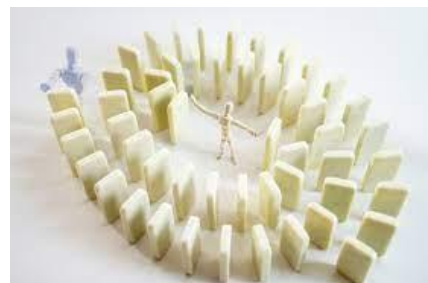
- Three types:
 - Egoism
 - Human beings always act and must act for their own benefit
 - Altruism (or ethic of compassion)
 - Should think about the other
 - Utilitarianism
 - Act according to what benefit of the most



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Examples of consequentialism

- "End justify the means"
- Cost/benefit analysis
- "The greatest good"
- "What will I gain from that?"



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Utilitarianism



consequentialism.

- Utilitarianism holds that the most ethical choice is the one that will produce the greatest good for the greatest number.
- It is the only moral that can be used to justify military force or war.
- It is also the most common approach to moral reasoning used in business because of the way in which it accounts for costs and benefits.

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Utilitarianism

- However, because we cannot predict the future, it's difficult to know with certainty whether the consequences of our actions will be good or bad. This is one of the limitations of utilitarianism
- Utilitarianism also has trouble accounting for values such as justice and individual rights. For example, assume a hospital has four people whose lives depend upon receiving organ transplants: a heart, lungs, a kidney, and a liver. If a healthy person wanders into the hospital, his organs could be harvested to save four lives at the expense of one life. This would arguably produce the greatest good for the greatest number. But few would consider it an acceptable course of action, let alone the most ethical one.
- So, although utilitarianism is arguably the most reason-based approach to determining right and wrong, it has obvious limitations.



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Utilitarianism



- Of Act
 - Checks the consequences of each individual act
 - Utility calculation each time the act is performed
- Of Rule
 - Checks the consequences of everyone following a certain rule
 - Calculates the overall utility of accepting or rejecting the rule

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Deontological ethics



- Deontology consists of the belief that certain actions are wrong in themselves, regardless of the consequences they cause
- Deontological ethics **holds that at least some acts are morally obligatory regardless of their consequences for human welfare.**
- Descriptive of such ethics are such expressions as "Duty for duty's sake," "Virtue is its own reward," and "Let justice be done though the heavens fall.
- Deontology is an ethical theory that **uses rules to distinguish right from wrong.**
 - Deontology is often associated with philosopher Immanuel Kant.
 - Kant believed that ethical actions follow universal moral laws, such as "Don't lie. Don't steal. Don't cheat."
- Right is independent of the result produced
- Duty-based decision

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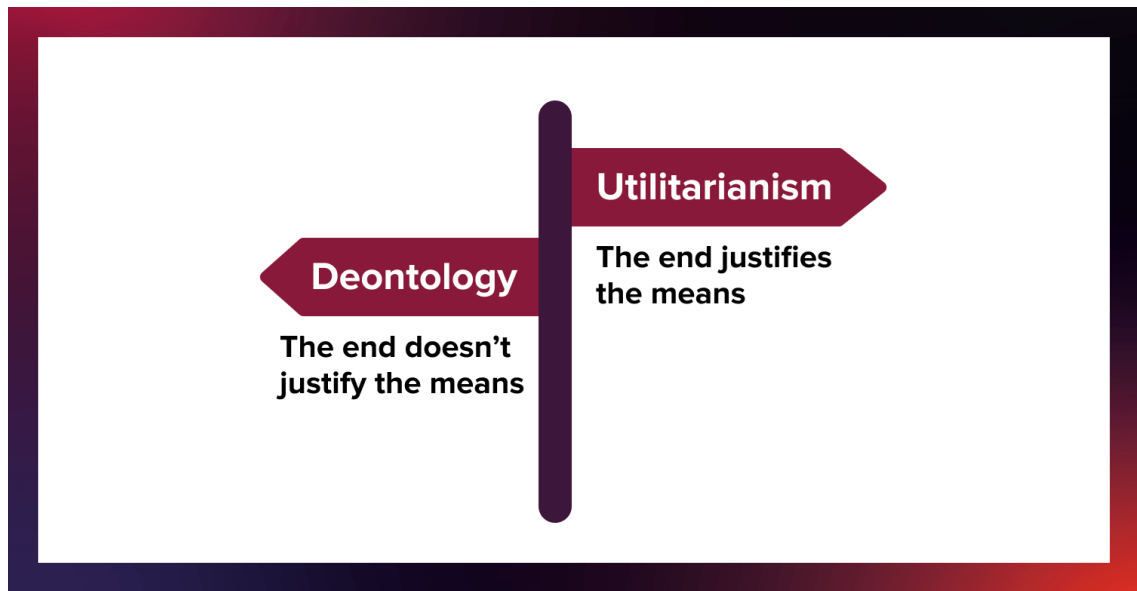
Deontological ethics

- Kant's formulation of ethics is somewhat obscure.
 - He claimed that there is a moral command, the "categorical imperative", that we must all follow.
 - He never explained it in detail, but he stated that a formula for defining whether an action is in accordance with him or not is as follows: let us imagine that all humanity acts in accordance with the intention that we would have in doing such an action.
 - If the intention itself prevents all humanity from acting in accordance with it, acting with that intention is not allowed.

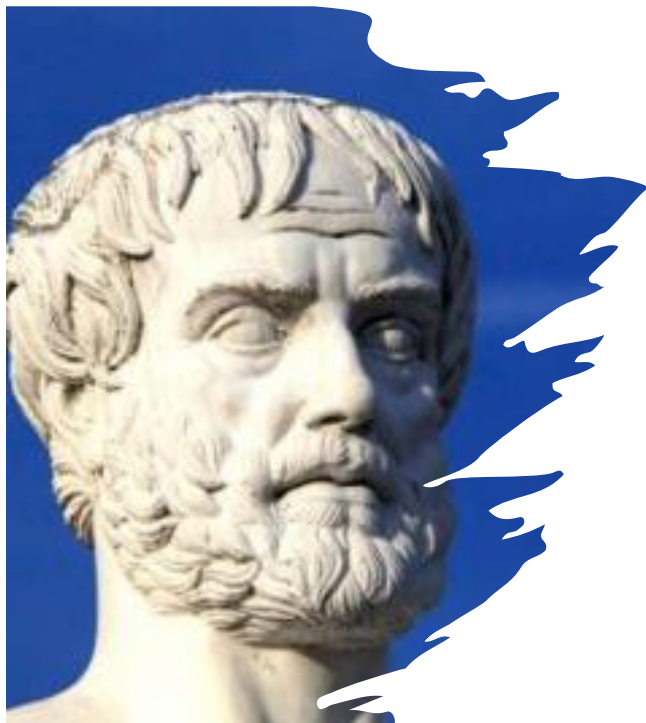
Examples

- "The ends do not justify the means"
- "Do to others as you like them to do to you"
- "Be fair and do not use others for selfish reasons"





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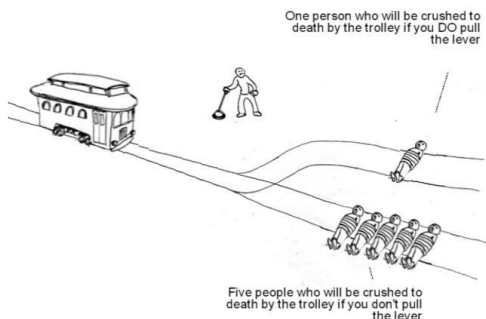


Virtue Ethics

- It was developed by Aristotle and is focused on what a moral person should be like.
- He stated that a person, to be excellent, should have several virtues, such as courage, temperance, modesty and self-control.
- All these virtues would be an ideal compromise between an excess and a lack; in the case of courage, it would be the middle ground between cowardice and temerity.
- This ethical theory has somewhat lost its relevance over the modern period

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Virtue Ethics



- Virtue ethics does not usually lead to consequences that we consider unacceptable, but it does have the problem of not making it very clear what we should do.
- An example is the classic case of the runaway train that goes on a track where there are five people tied up, and one person is on the side of the lever that would divert the train to a track where there is only one person tied up.
 - Utilitarianism would say that we must kill one person to save five
 - Kantianism would say that we cannot kill a person, regardless of the consequences.
 - Virtue ethics does not seem to be able to give an objective answer about what attitude would be right in this case.

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Four Ethically Objectivist theories

| Theory | Description | Example |
|----------------|---|---|
| Ethical egoism | Do what is in your self-interest | Under capitalism, Each company should maximize profits |
| Utilitarianism | Do that which produces the greatest amount of happiness for the greatest number of people | Take a vote in your family about which ice cream flavors to buy |
| Kantian ethics | Absolute moral rules must be followed, regardless of the consequences | Always tell the truth, even if it could harm you |
| Virtue ethics | Do that which makes you a better person | What sort of a person shall I be? A trustworthy person? |

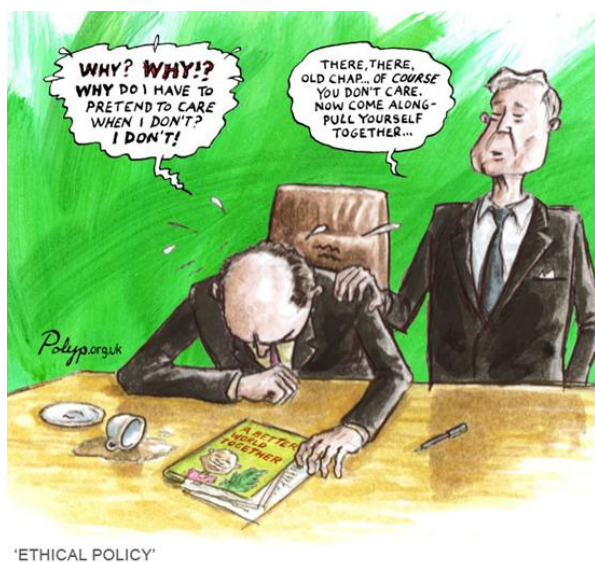
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Corporate Social responsibility

- The corporate governance model must meet responsibility and respect for all the company's stakeholders
- Sense of responsibility, beyond what is contemplated in the Law
- It can only do so if it creates value for the shareholder and remunerates their invested capital
- Without it, it cannot attract new investors.



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Corporate Social responsibility

- There are already groups of investors that only choose green/socially responsible companies to invest
- The cost/price to pay for loss of trust/reputation is very high and companies cannot afford not to be ethically, socially and societally responsible.
- To be sustainable in the long term, a company must have the capacity to finance and invest



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Corporate Social responsibility

- There is an urgent need for all society to address stakeholder issues:
- Human rights
- Treatment of employees
- Treatment of customers
- Climate change



CSR is needed to empower the society



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Corporate Social responsibility

- Companies are pervasive in their impact on society and on the environment
- They have to be called to account for their actions
- They have to be accountable to society
- They have to behave responsibly
- *Things are changing but is the change happening quickly enough?*



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Corporate Social responsibility

- Corporate Governance is about improving companies' ACCOUNTABILITY to shareholders and to non-shareholding stakeholders.

- Sustainable, accountable companies are the only means of ensuring a safe global environment for the future.



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Is CSR worth it?

In early 2018, BlackRock CEO Larry Fink made waves by telling company CEOs in his annual letter that society now demands that their companies serve a social purpose. Fink, whose company manages more than \$6 trillion in assets, said that "to prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society."² For some, this shifts what companies should focus on well beyond just generating returns for shareholders.

But at the same time, a fair number of directors think investor focus is misplaced. Almost one-third of directors (29%) say shareholders are too focused on corporate social responsibility—perhaps indicating a reluctance to embrace the idea of corporations serving a social purpose.

– Glenn Booream, Head of Investor Stewardship for the Vanguard

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Is CSR worth it?

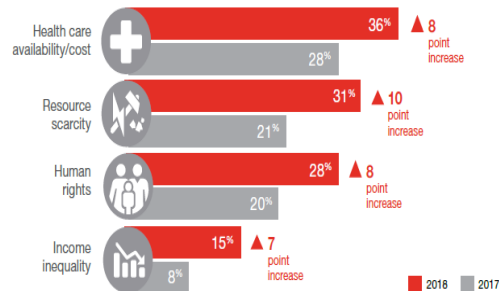
Investor reaction to the findings

"We're encouraged that more directors are incorporating a wide range of risks into their perspective on company strategy. But opportunities remain for more consistently comparable disclosure of these significant risks and their potential impact on long-term value creation. As practically permanent owners of most companies, we focus on issues—including environmental and societal risks—that have lasting, long-term implications for companies today and tomorrow. Our agenda isn't driven by what's popular at the moment—it's about long-term, sustainable value creation."

– Glenn Booream, Head of Investment Stewardship for the Vanguard funds

Social issues directors think should impact strategy

Which issues should play a major role in strategy formation?



Q30: To what extent do you think your company should take the following social issues into account when forming company strategy?
Response: Very much
Base: 671-677 (2018); 816-819 (2017)

Sources: PwC, 2018 Annual Corporate Directors Survey, October 2018; PwC, 2017 Annual Corporate Directors Survey, October 2017.

The evolving boardroom • Signs of change



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Ethics and social responsibility

A manager who has ethical pruritus will not be able to perform his duties properly.

- It will inevitably end up harming the shareholder (e.g. company reputation, sanctions, fines, and more serious bankruptcy)
- Should not be chosen to be in the company
- Not being ethical is not a governance issue, it's a police issue, it's a crime!



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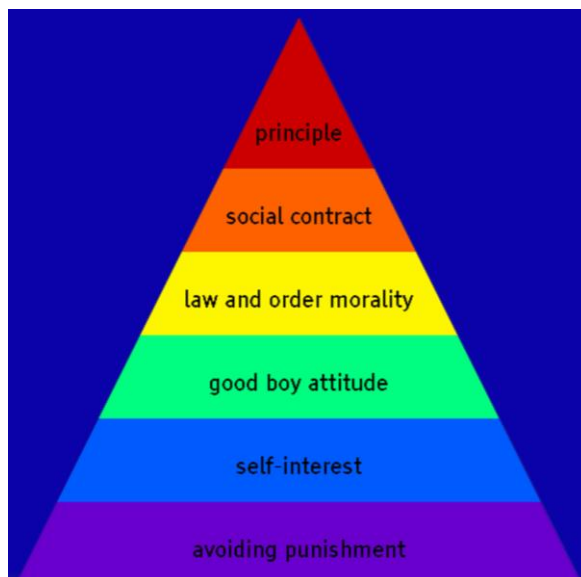
*Where are
we heading
to?*



*"Yes, the planet got destroyed. But for
a beautiful moment in time we created
a lot of value for shareholders."*



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**Stages of moral
development
by Kohlberg**



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Stages of moral development by Kohlberg

Stages of moral development (70's):

Level Preconventional (<6 years)

- 1 – Punishment and obedience orientation. Obey rules to avoid punishment. (**Social perspective: Blind egoism**)
- 2 – Naïve hedonism. Conforms to get rewards and to have favors returned. (**Social perspective: Instrumental egoism**)

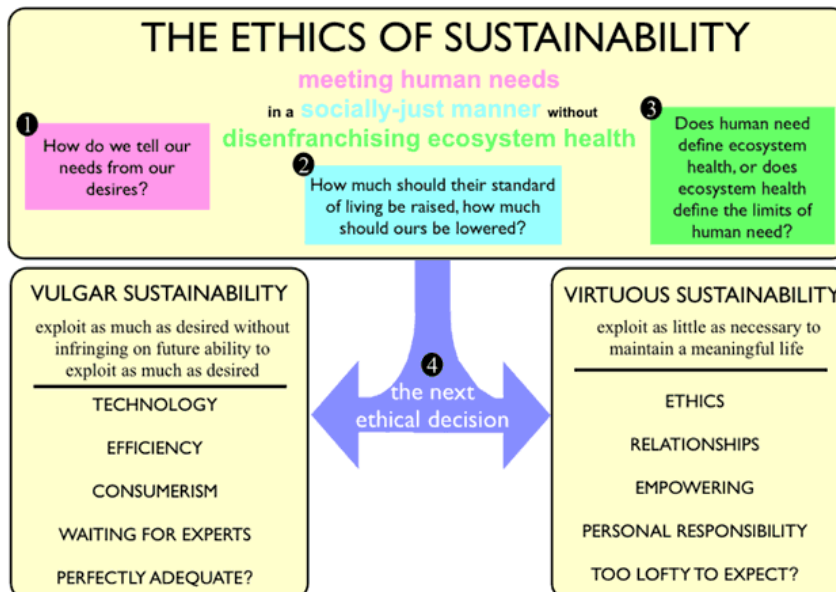
Level Conventional (7-11 years)

- 3 – Good boy/girl morality (recognize good and bad intentions). Conforms to avoid disapproval or dislike by others. (**Social perspective: Social relationships perspective**)
- 4 – Conforms to avoid censure by authorities. Able to see abstract normative systems. Loyalty to law and order (**Social perspective: Social systems perspective**)

Level Postconventional (>11 years)

- 5 – Conforms to maintain communities. Emphasis on individual rights. Recognizes that contracts will allow persons to increase welfare of both. (Social perspective: Contractual perspective)
- 6 – Individual principles of conscience. (Social perspective: **Mutual respect as a universal principle**)

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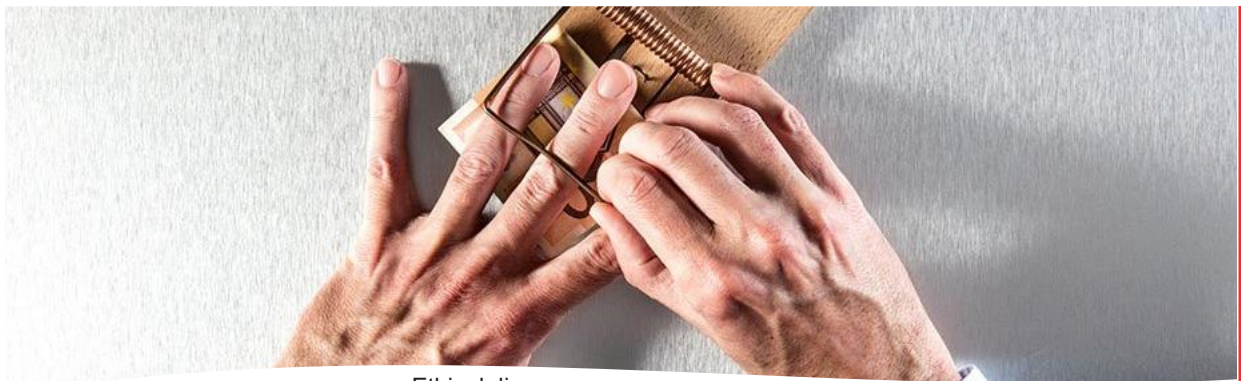


[True sustainability needs an ethical revolution \(theecologist.org\)](http://theecologist.org)

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The Ethical Dilemma

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Ethical dilemmas or pitfalls

- Ethical dissonance
 - Separation of a particular case from the person's moral convictions
- Ethical Neutralization
 - Disclaimer: "I was forced..."; "I'm not the one in charge..."
 - Disclaimer: Damage refusal: "it's only once", "mine doesn't hurt..."
 - Depreciation of the victim: "I was really asking for them", "he is greedy", "whoever walks in the rain gets wet..."
 - Condemnation of the condemners: "whoever says that is racist/fascist..."; "I don't want to hear the truths"
 - Appeal to loyalties: "it's better for everyone", "it was on behalf of the partners..."
 - Weird references: "He steals, but he does it!"

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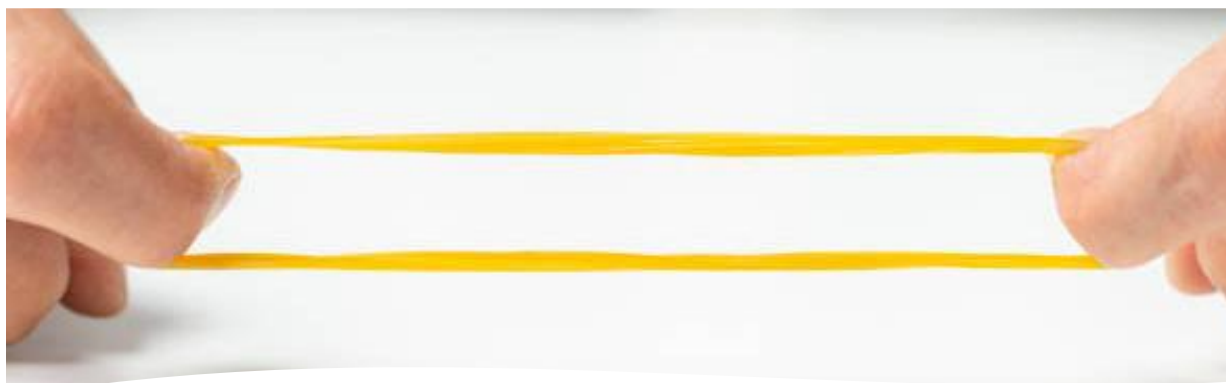
The moral elastic!!

- Trade-off between: "I want to feel good about myself" vs "I want to benefit from some dishonesty"
- That's why people "stretch the moral rubber band!"
- Thus, dishonesty depends on rationalization and expected gain

DAN ARIELY THE (HONEST) TRUTH ABOUT DISHONESTY



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What makes the elastic stretch?

- Psychological distance between act and consequence
- Involvement of own resources
- Ability to rationalize and control desires
- Revenge, spite
- Moral codes of conduct
- Involvement and formalization (signed something? Were there witnesses?)
- Comparison with others (e.g. public figures, with peers...)



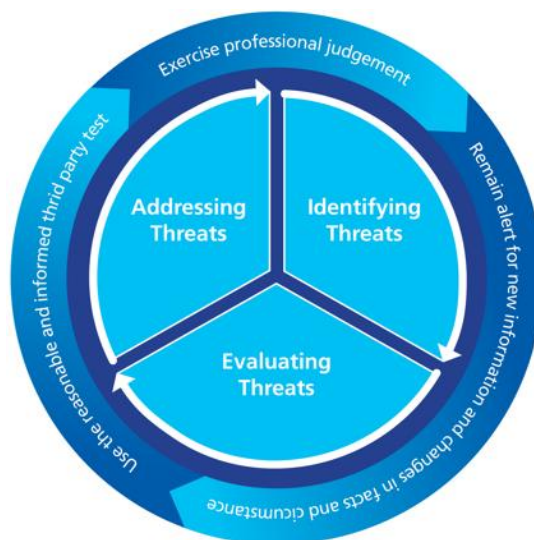
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Ethics in accounting

Managing Threats

The conceptual framework specifies an approach for a professional accountant to:

- (a) **Identify** threats to compliance with the fundamental principles;
- (b) **Evaluate** the threats identified; and
- (c) **Address** the threats by eliminating or reducing them to an acceptable level.



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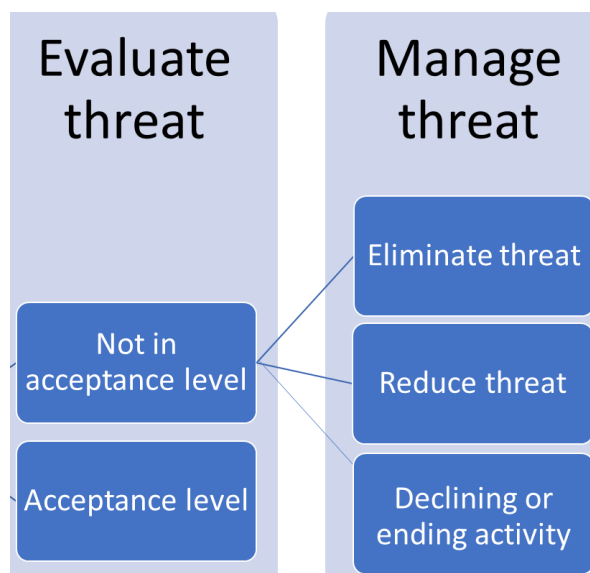
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Managing Threats



- The accountant shall evaluate whether such a threat is at an **acceptable level**
- The **third party test** is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party.



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Offering or accepting inducements

An **inducement** is an object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the intent to improperly influence that individual's behaviour.

Inducements can range from minor acts of hospitality between business colleagues to acts that result in non-compliance with laws and regulations.

An inducement can take many different forms: • Gifts. • Hospitality. • Entertainment. • Political or charitable donations. • Appeals to friendship and loyalty. • Employment or other commercial opportunities. • Preferential treatment, rights or privileges.



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Offering or accepting inducements

- Why this kind of situations may represent a threat to ethics in business?
- Which are the fundamental principles that might be affected?
- What circumstances are relevant to be considered?
- What actions may eliminate (or act as safeguards) to address these threats?



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Offering or accepting inducements

Now, consider the IFAC Code of Conduct:

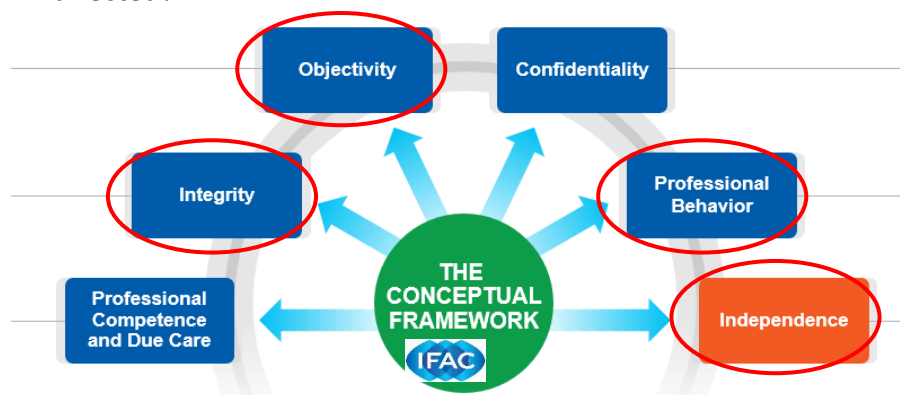
- Identify the **threats** that are created by offering or accepting inducements.



Offering or accepting inducements

Now, consider the IFAC Code of Conduct:

- Which are the **fundamental principles** that might be affected?



Offering or accepting inducements

Now, consider the IFAC Code of Conduct:

- Give examples of possible **safeguards**.



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Ethics in accounting: conflict of interest

A conflict of interest creates threats to compliance with the principle of objectivity and might create threats to compliance with the other fundamental principles. Such threats might be created when:

- A professional accountant undertakes a professional activity related to a particular matter for two or more parties whose interests with respect to that matter are in conflict; or
- The interest of a professional accountant with respect to a particular matter and the interests of a party for whom the accountant undertakes a professional activity related to that matter are in conflict.

A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.



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Ethics in accounting: professional judgment

Professional accountants are involved in the:

- (i) preparation and presentation of information both within and outside the organization;
- (ii) representation of facts in a accurate and complete way (materiality);
- (iii) clear description of business transactions or activities;
- (iv) classification and recording of information in a timely and proper manner.



In all these tasks, accountants shall exercise **professional judgment**



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Ethics in accounting: professional judgment

1

The **exercise of professional judgment** is required for the professional accountant to:

- make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances.
- understand facts and circumstances.
- conclude whether the fundamental principles have been complied.

2

Professional judgment involves the application of relevant training, professional knowledge, skill and experience

3

It's important to be aware of the:

- need to consult with others with relevant expertise or experience;
- need to have the information necessary to reach a conclusion;
- accountant's own preconception or bias and if it might be affecting the accountant's exercise of professional judgment.



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Ethics and governance

Agency Theory

- **Agency relationship** - Relationships between business owners (principals) and decision-making specialists (agents) hired to manage principals' operations and maximize returns on investment.
- **Agency problems** - When managers put their own self-interest ahead of the interests of those shareholders - **Managerial Opportunism**: an attitude or set of behaviors based on self-interest

How CG mechanisms used to monitor/control management decisions can foster ethical strategic decisions?

- Preventing agents from acting opportunistically
- Managing the relationships (and conflicting interests) among stakeholders
- Aligning strategic decisions with company values
- Paying incentives/bonus to control manager's behavior

Ethically responsible companies design and use governance mechanisms that serve all stakeholders' interests



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Building a culture of ethics and compliance

- ❖ Codes of conduct for employee that are well communicated through the organization;
- ❖ Mandatory training on compliance with rules;
- ❖ Clear policies and procedures;
- ❖ Regular internal audits;
- ❖ Strong leadership (in hierarchical cultures it is a key factor);
- ❖ Making ethical views clear, walking the walk and responding to both ethical and unethical behavior in the workplace;
- ❖ Organization's social memory (more than a set of policies);
- ❖ Public support for anti-fraud measures;
- ❖ Honesty reputation.

Showing that you value ethics and accountability can create a climate where employees speak up.

"We ask our people to persist and prevail, not to take shortcuts." (CEO of an Indian company)

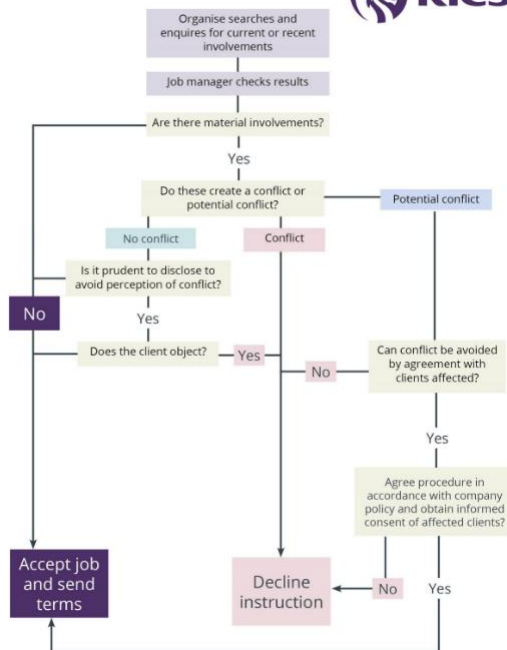


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Ethical dilemma: Conflicts of Interest (Examples)



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Ethical dilemma: A case of illegal dumping and whistleblowing



Marilu Marcillo, D.M. Saint Peter's University, NJ

Mary Kate Naatus, Ph.D. Saint Peter's University, NJ

Adapted from Journal of Business Cases and Applications (volume 20)



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Ethical dilemma



Question 1.

The Stakeholder model helps provide a framework to identify the implications of John's decision. Various **groups affected by the ethical decision** include employees, customers, shareholders and the general public. While John may feel compelled to protect his job and his employer by keeping quiet in the short-term, the long-term impact of that decision may have more harmful effects on the environment, and thus shareholders, employees and customers.



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Ethical dilemma



Question 2.

There are several pros and cons to each approach. An advantage of **going directly to his supervisor** includes confronting the problem head-on and stopping further damage, but a potential con would be losing his job. An **anonymous letter** would protect his identity and possibly save his job, but a con would be if it is not taken seriously or covered up again. Ignoring the problem protects his job in the short term, but allows the problem to persist, which is likely to damage the company's brand and reputation in the long term.



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Ethical dilemma



Question 3.

At the **pre-conventional stage**, John would likely prevent himself from getting in trouble resulting in the wrong long-term decision.

At the **conventional stage**, John might feel compelled to do something, but also to protect his identity so that he is not judged harshly by the company.

At the **postconventional stage**, John would be compelled to do the right thing because he believes it to be the moral choice, which might result in him approaching his supervisor directly, despite the potential harm to his position at the company.



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Ethical dilemma



Question 4.

There are many risks to “blowing the whistle” on an employer, such as potentially losing one’s employment, facing diminished career prospects and social risk of being labelled a snitch.

However, the risk of not reporting unethical and/or illegal actions, can be much more damaging in the long-term to the various stakeholders.



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Sustainability, Accountability and Ethics

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