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Event Recap: Berkeley Sustainable Business & Investment Forum (Part II)

By Kevin Chiu, J.D. Candidate 2018 | December 22, 2015

On November 10 & 11, 2015 the University of California, Berkeley School of Law and Berkeley Haas School of Business jointly hosted the inaugural Berkeley Sustainable Business & Investment Forum at the University Club on campus. Key players from across all industries and academia attended the two-day event to share perspectives and insight on evolving topics of risk management, capital investment, and sustainable business practices with a focus on long term growth and value creation for all stakeholders.

The event was co-sponsored by PepsiCo, Visa, and PriceWaterhouseCoopers ("PWC"). The forum focused on the advancement of risk management, capital allocation, and sustainable business practices, with an emphasis on long-term value-creation

This is part two of a three-part series dedicated to coverage of the event.

"Evolving Investor Expectations"

Donna Coallier, Partner at PWC; Donna Anderson, VP and Corporate Governance Specialist at T. Rowe Price; Anne Simpson, Investment Director at CalPERS

Considerations of Sustainability

One of the prevailing questions that drove a lot of the discourse during the event was whether companies actually care about sustainability. The panel agreed that sustainability is a pressing issue that the vast majority of organizations consider in one form or another. Investors and stakeholders who are concerned about long-term sustainability must address both the advantages and policy-driven responsibilities of such considerations. From the point of management strategy, value creation is a constant engagement with balancing the limited resources of financial capital with the needs of human capital and physical capital. These countervailing demands suggest that sustainability risk is a multifaceted issue that is ultimately driven by strategy and policy.

Issues of Materiality

Materiality is another consideration that arose in the panel discussion. Given the diverse standards of materiality across industries and reporting standards, organizations should consider materiality as a gauge of investor objectives and act accordingly. One example was a strategy of divestment of carbon intensive companies in a portfolio in favor of investments that promote environmental sustainability. While the financial materiality may not merit consideration of these types of divestments, proper communication of the risk mitigation allows for broader understanding of such adopted strategies. Policy suggestions may merit reforming reporting requirements within global standard setting bodies such as the International Accounting

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Standards Board (IASB) and International Financial Reporting Standards (IFRS) to properly codify sustainability reports as part of the global reporting language.

How to Balance Long Term & Short Term Objectives

The panel addressed the underlying tension between long-term considerations and immediate hits to short-term profitability when discussing corporate policy on issues like sustainability. The realization of returns from engaging in these initiatives often test the patience of shareholders and analysts, who are quick to prescribe negative outlooks if quarterly performance metrics aren't trending upward. Long-term owners and shareholders should bear the pressures and back the long-term strategy of boards against the short-term fluctuations in market valuation if companies are to realize maximum economic gain. Financial models need to address the disconnect in capital expenditure ("CAPEX") plans and compensation structures with the longer runways needed for corporate sustainability.

The panelists opined that companies are ultimately rational entities and operate with the general goal of being viable for many years. However, the lack of connected thinking among institutional investors creates a blind spot for systemic risks that can be remedied by transitioning to long-term sustainable business practices that benefit this goal and the needs of company stakeholders—even if the short-term metrics don't suggest this is the most profitable course of action.

Next Steps for Academia

The panel prescribed a number of topics that academic should explore regarding sustainability. Traditional sustainability has focused primarily on physical capital (i.e. environmental responsibility) and financial capital. Future academic research should examine the implications of human capital strategy that addresses prevailing issues of employee burnout, disengagement, and compensation inequality.