UNCTAD-ISAR Workshop on the Future Direction of the Corporate Reporting Model

Monday, 13th October 2014
Room XXVI, Palais des Nations, Geneva

Workshop material:

*Issues, good practices and main challenges of preparing reports on sustainable development issues*

Presented by

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Institutional Mechanism Design: Accounting for Sustainable Development. Potentials of “One Additional Line”

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New Financial Reporting Scheme in India

Companies Act 2013 – already in practice

At least 2% of profits to be expensed for CSR
Already started from April 2014 financial year
16,352 companies currently in practice
20,000 INR (3.3 billion USD) expected this year alone

… a lot of misconception as “additional 2% Tax”

… for this short presentation, the theory behind only.
For details, please do speak to me after the session.
Creation of new reality by “One Additional Line”

Our target is Large Emerging Economies Not Western Countries

e.g., India, where 7,000 listed companies exist, …

What happens if we do this?

All listed companies have to disclose CSR Expense in One Additional Line

Not “Tax” but “Market” i.e., Internalization of the previously “externalized.”
Sub-Mechanism of “One Additional Line”

Company A
Financial Statements

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Sales</td>
<td>12,000</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>6,000</td>
</tr>
<tr>
<td>Expenses</td>
<td>3,030</td>
</tr>
<tr>
<td>Profit</td>
<td>2,970</td>
</tr>
</tbody>
</table>

( Incl. CSR Exp. 30 )

CSR Index: 1 %

( CSR Exp. / Profit * 100% )

Financial Audit
- Certification for companies ↑
- Audit Fees for Accountants ↑

Making currently useless CSR Reports connected and relevant

CSR Exp. = 30

Environmental Protection
- 10

Human Right Protection
- 10

Health Care
- 10

Environmental Protection

Human Right Protection

Health Care

Ranking
- SRI, Share Price ↑
- Brand / Reputation ↑

Media
- Journalist / Activist ↑
- Scandal / Award ↑
Investors – Years with CSR Disclosure

Company A (2014) - India
- Sales: 2320
- Cost of Sales: 1160
- Expenses: 550
- Profit: 450

Company B (2014) - India
- Sales: 2320
- Cost of Sales: 1160
- Expenses: 600
- Profit: 560

Company C (2014) - China
- Sales: 2420
- Cost of Sales: 1210
- Expenses: 565
- Profit: 545

Company D (2014) - China
- Sales: 2420
- Cost of Sales: 1210
- Expenses: 655
- Profit: 655

Allocate fund to each company (between 5% and 45%). Total has to be 100%.

15% → 20%
25% → 10%
20% → 40% → 10%
40% → 30% → 30%

Your Bonus Rank

Share movements affect Mgt’s CSR level next round

Investors: allocate fund for High Bonus

Only India One Additional Line

Reasoning:
I invest in companies which take balance bet. Profit and CSR.

<table>
<thead>
<tr>
<th>Year</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
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<tr>
<td>2010</td>
<td>11.1</td>
<td>3.6</td>
<td>-</td>
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<td>2011</td>
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<tr>
<td>2017</td>
<td>11.1</td>
<td>3.6</td>
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</tbody>
</table>

2013 Total Out of 21

| Divi Dends | 8 (Weight 20%) |
| Share Value Change | 20 (Weight 80%) |
| Total Over years | 17 out of 21 | 10 out of 21

Submit
Time: 00:01:25
Experiment 1: CSR ↑ then Share ↑ …
Experiment 2: Country with CSR, Share Price Movements

Share Price Movements

Level of CSR Expense

Average Allocation of Funds

CSR Index (CSR Ex/ Prof)*100
Main Results

Under “One Additional Line,”

- Appropriate CSR Expense (despite lower profit) → Higher Share Price
- Countries with OAL → Higher Share Price
Features of “One Additional Line”

1. **Win-Win-Win-Win-Win** for Management, Investors, Society Accountants & Media, academics, government officials, …
2. No altruism – all supported by personal incentive mechanism and the market autonomy
3. Applicable to all industries: Overcoming Industrial unfairness (e.g., Oil & Gas vs. Banks)
4. Winning **international** competition / dissemination
5. Politically easy - “If you did good, show it please”? Not Tax.
6. Very little regulatory costs – just a matter of “Disclosure Form”
7. Cancellable low risk regulation: Cancel anytime without cost, even if regulation fails (unlike Carbon Trading Market)

… so, imagine the CEO of Stock Exchange X, or President of country Y wanted to implement this, then, … , at least, an interesting trial.
Oxford University welcomes constructive criticisms for “One Additional Line” Reporting Scheme.

Please contact Prof. Tomo Suzuki, Head of Accounting Group, for informal discussion: tomo.suzuki@sbs.ox.ac.uk or mobile phone: +44 (0)7583 199374 (to the evening of Tuesday)

For those jurisdictions / Stock Exchanges which may be interested in implementing the Scheme, free consultations are available.

Please utilize this opportunity in Geneva.

Thank you.
Suzuki, T & Jain, J. (2011) ‘The Socio-Economic Impact of IFRS on Wider Stakeholders in India’. On the request of the Minister of Corporate Affairs (MCA) in India, Hon. Mr, Salman Khurshid and the Institute of Chartered Accountants in India (ICAI), Delhi, India. 140 pages.

http://www.thecasecentre.org/educators/products/view?id=117695


Those who wish to consider adopting the “One Additional Line”, at the national or Stock Exchange level, please contact Tomo Suzuki. Free consultation has been conducted. tomo.suzuki@sbs.ox.ac.uk