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Desautels Faculty of Management  
Faculté de gestion Desautels

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## **ACCT 401 - SUSTAINABILITY & ENVIRONMENTAL ACCOUNTING**

### **Fall 2017**

**Class hours:** Wednesdays 11:35 AM – 2:25 PM

**Instructors:** Dror Etzion, Ph.D., [dror.etzion@mcgill.ca](mailto:dror.etzion@mcgill.ca) (office 486)

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**Office hours:** By Appointment

### **COURSE DESCRIPTION**

Sustainability accounting is an emerging field of accounting that provides a framework for developing measures of corporate environmental and social performance, assessing their reliability, reporting to external stakeholders, and assisting managers in strategic and operational decisions that affect environmental costs and risks. A growing number of organizations see the need to develop and implement management systems for social responsibility due to increased regulatory requirements and demand from various stakeholders. This course provides a comprehensive overview of existing multidisciplinary knowledge in corporate sustainability accounting.

This course combines lecturing and hands-on teaching methods. It has an applied nature: students will attain the learning objectives by completing class assignments and participating in case discussions based on real life examples of corporate sustainability practices.

### **LEARNING OUTCOMES**

By the end of the course, students will:

1. Appreciate the complexities, trade-offs, benefits and costs of accounting for sustainability
2. Know how to evaluate measures of corporate environmental and social performance and use these measures to make key strategic and operational decisions.
3. Understand how sustainability performance management affects corporate costs, revenues, and risks.

## **GRADING**

Homework assignments	24%
Final exam	64%
Participation and professionalism	12%

### Homework assignments

There will be a total of four assignments due (see the schedule below). Each deliverable accounts for 6% of the final grade. Generally, assignments are related to the cases that will be discussed in class.

### Final exam

The exam will be based on all the teaching material covered in the course (readings, cases, lectures, etc.).

### Participation and professionalism

Learning in this class will not be passive; thinking, creativity and mutual engagement with the ideas of others are expected. Therefore, participation is a key component of the learning experience. We evaluate participation using any and all information we can glean about how much spirit and energy you have invested in the course. Specifically, the degree to which your comments in class reflects the real thinking about the issues and the readings we are exploring is crucial; this is more important than how often you speak or how much you say. Brevity, tact and staying on topic are also hallmarks of quality participation. If you are having difficulty fully participating in the course, for any reason, you should see us as soon as possible to discuss your situation. Participation grades will be finalized at the end of the course.

Students are expected to attend all classes. However, it is reasonable that students will miss one class during the term. Absences beyond that will affect your participation grade. Punctuality, adherence to timetables, and mutual respect are also important facets of professional behavior.

### Course materials

You will need to obtain a coursepack for the course, which contains the cases we will be using in some of our sessions. All the rest of the course materials are available on MyCourses.

### Books:

- Fundamental of sustainability accounting I
- Fundamental of sustainability accounting II

Pdf files for these books are posted on MyCourses. Students **are not** allowed to share the material with colleagues, friends or anybody beyond this course's participants.

## SCHEDULE

Week	Date	Theme	Note
1	Jan 4	Introduction	None
2	Jan 11	Measuring sustainability and measuring organizations	<p><u>Reading:</u> Specter, Michael. (2008). Big foot: In measuring carbon emissions, it's easy to confuse morality and science. <i>The New Yorker</i>.</p> <p><u>Case study:</u> Triodos Bank: Measuring sustainability performance</p> <p><u>Case preparation questions:</u></p> <ol style="list-style-type: none"> <li>1. What are the challenges and limitations of common frameworks for measuring and communicating sustainability?</li> <li>2. What is the relationship between measuring and communicating sustainability?</li> <li>3. What frameworks should Triodos adopt in order to measure and communicate sustainability performance?</li> </ol>
3	Jan 18	Principles of sustainability accounting	<p><u>Reading:</u> Fundamentals of sustainability accounting I (p:67-71 and p:93-136). Fundamentals of sustainability accounting II (p:4-88).</p> <p><u>Case study:</u> AXA case (on line case: <a href="http://nexus.som.yale.edu/axa/">http://nexus.som.yale.edu/axa/</a>)</p>
4	Jan 25	Greenhouse gas accounting	<p><u>Reading</u> Corporate greenhouse gas accounting: Carbon footprint analysis</p> <p><u>Case study:</u> Frito-Lay North America: The making of a net zero snack chip</p> <p><u>Assignment #1:</u></p> <ol style="list-style-type: none"> <li>1. If you are Al Halvorsen, what considerations are in the forefront of your mind as you consider the net zero facility decision? If you propose the idea, what arguments would you proffer? Prepare to argue your case in from of Frito-Lay's executive committee</li> <li>2. For the CASA Grande facility, calculate the metric tons of emissions of greenhouse gases from electricity and natural gas usage for each year from 2002 to 2007. (pay close attention to units)</li> </ol>

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			<ol style="list-style-type: none"> <li>3. Project estimated reduction in greenhouse gas emissions and operating cost savings that will result from the proposed net zero project in year 2008-2010. (assume that all equipment upgrades are made immediately at the start of 2008)</li> <li>4. Who is Indra Nooyi? Research FLNA's CEO Indra Nooyi and come to class having thought about the relevance of leadership to sustainability innovation</li> </ol>
5	Feb 1	Sustainability management systems	<p><u>Reading:</u> Chatterji, Aaron, and David Levine. (2006) Breaking down the wall of codes: Evaluating non-financial performance measurement." <i>California Management Review</i> 48(2): 29-51.</p> <p><u>Case study:</u> Genzyme Centre (A)</p> <p><u>Case preparation questions:</u></p> <ol style="list-style-type: none"> <li>1. What do you think of Genzyme's motives for investing in green building practices?</li> <li>2. Would you recommend that Genzyme make the Additional investments required to enable Genzyme Centre to achieve LEED Platinum? Why or why not?</li> <li>3. If Genzyme were to invest in additional features to achieve Platinum, which ones should they choose? How should they decide?</li> </ol>
6	Feb 8	Environmental, social and corporate governance (ESG)	<p><u>Reading:</u> Smith, R. (2016) Investors sharpen focus on social and environmental risks to stocks. <i>The New York Times</i>.</p> <p><u>Case study:</u> Driving sustainability at Bloomberg LP.</p> <p><u>Case preparation questions:</u></p> <ol style="list-style-type: none"> <li>1. Assess the evolution of the ESG project at Bloomberg and what the best next steps are. Should Bloomberg begin deriving data and /or providing rating? Or should they stick to their traditional business of just providing information?</li> <li>2. What is Bloomberg's competitive position in the ESG data space? Do they have any particular competitive advantage or liabilities?</li> <li>3. How should the ESG product be organized internally going forward? Should Curtis Ravenel be in charge of the project? why? why not?</li> </ol>

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			4. Assume you are Cutris Ravenel and prepare your agenda for the meeting with the president and the CEO of Bloomberg. What should Cutris ask for?
7	Feb 15	Financing development initiatives	<p><u>Reading:</u> Banerjee, A., &amp; Duflo, E. (2012). <i>Poor economics: A radical rethinking of the way to fight global poverty</i>. Public Affairs. Chapter 6.</p> <p><u>Case study:</u> Using Satellite Data to Insure Livestock</p> <p><u>Case preparation questions:</u></p> <ol style="list-style-type: none"> <li>1. What are the main successes and challenges of the IBLI program?</li> <li>2. What is the main dilemma facing Andrew Mude? What are his options?</li> <li>3. What would you recommend that Andrew do? What activities should he undertake in order to succeed?</li> </ol> <p><u>Assignment #2</u></p> <ol style="list-style-type: none"> <li>1. Consider that a pastoralist from the Marsabit district in Northern Kenya insures a cow worth \$200. The annual premiums in Marsabit are 5% for a 15% deductible of the IBLI contract. What amount of premium will she have to pay to insure her cow?</li> <li>2. What is the trigger % for the IBLI contract?</li> <li>3. If the predicted livestock mortality of that division is 12% at the end of the first season, how much payout will the pastoralist receive?</li> <li>4. If the predicted mortality of that division is 25% at the end of the next season, how much payout will the pastoralist receive?</li> <li>5. If the trigger remains the same (at 15%) but the deductible becomes 10%, what would be the pastoralist's compensation in the previous question?</li> </ol>
8	Feb 22	Financing social initiatives	<p><u>Reading:</u> Poister, Theodore H. (2008). <i>Measuring performance in public and nonprofit organizations</i>. John Wiley &amp; Sons, 2008. (Chapter 3)</p> <p><u>Case study:</u> The Robin Hood Foundation</p>

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			<p><u>Case preparation questions:</u></p> <ol style="list-style-type: none"> <li>1. The Head of Sunshine Homes, Mary Montreaux, was honored as a Robin Hood “Hero” for the wonderful work she has done. Now the foundation says that she has just received her last grant. This BC methodology must be incredibly smart or just plain dumb. Which is it?</li> <li>2. How valuable is the methodology for comparing “apples to oranges”, that is, investments in different portfolios?</li> <li>3. How should the Robin Hood Foundation assess its own performance?</li> </ol>
	<b>Mar 1</b>	<b>Reading week</b>	
9	Mar 8	Financing environmental initiatives	<p><u>Reading:</u> Kerste, M., Rosenboom, N., Sikken, B. J., &amp; Weda, J. (2011). Financing the transition to sustainable energy in M. Kerste, N. Rosenboom, BJ Sikken, J. Weda, <i>Financing sustainability-insights for investors, corporate executives, and policymakers</i>, (Chapter 1) VU University Press.</p> <p><u>Case study:</u> Legrand: Lightening their (electricity) load</p> <p><u>Assignment #3</u></p> <ol style="list-style-type: none"> <li>1. What are the appropriate incentives for Legrand?</li> <li>2. What is the payback period/IRR/ and NPV for Legrand?</li> <li>3. What was the price per ton of carbon avoided assuming energy savings?</li> <li>4. What reasons could be offered for not pursuing this project?</li> </ol>
10	Mar 15	Social accounting; Compensation	<p><u>Reading:</u> Rikhardsson, P. (2006). <i>Accounting for health and safety costs. Review and comparison of selected methods</i> (pp. 129-151). Springer Netherlands.</p> <p>An Investment or A Cost: Shareholders valuation of CSR Expenditures and CEO compensation (Working paper)</p> <p><u>Case study:</u> The National Football League and brain injuries</p> <p><u>Case preparation questions:</u></p> <ol style="list-style-type: none"> <li>1. Do you think that the NFL and franchise owners are meeting their obligations to employee health and safety?</li> </ol>

Week	Date	Theme	Note
			<p>2. Do you think that the NFL's and Owners' responsibilities in terms of player safety and health have changes now that the potential long-term health risks of playing football are more widely understood?</p> <p>3. There are analogies made in the case between football and smoking. Do you believe that in 25 years the state of professional football will be similar to that of cigarette companies today?</p> <p>4. If you were the owner of an NFL franchise team, would you look to sell your team or do you think the NFL will continue as a viable and profitable business?</p> <p>*** please read the appendix as it contains information essential to the class discussion</p>
11	Mar 22	Sustainability reporting	<p><u>Reading:</u> Illia, L., et al. (2013). Communicating corporate social responsibility to a cynical public. <i>MIT Sloan Management Review</i>, 54(3).</p> <p><u>Assignment #4:</u> Download Bell Canada's most recent sustainability report at <a href="http://www.bce.ca/responsibility/corporate-responsibility/2015-cr-report/2015-csr-report.pdf">http://www.bce.ca/responsibility/corporate-responsibility/2015-cr-report/2015-csr-report.pdf</a></p> <ol style="list-style-type: none"> <li>1. Assess the extent to which the report satisfies the GRI reporting principles (p. 16-18 of the G4 sustainability reporting guidelines; <a href="https://www.globalreporting.org/resourcelibrary/GRIG4-Part1-Reporting-Principles-and-Standard-Disclosures.pdf">https://www.globalreporting.org/resourcelibrary/GRIG4-Part1-Reporting-Principles-and-Standard-Disclosures.pdf</a>).</li> <li>2. Where did the report excel and which parts did you feel to be unsatisfactory?</li> <li>3. What would you recommend Bell focus on in their next report?</li> </ol>
12	Mar 29	Other topics in sustainability accounting	<p><u>Reading:</u> Fundamentals of sustainability accounting II(p:89-128)</p> <p>Ercin, A. Ertug, Maite Martinez Aldaya, and Arjen Y. Hoekstra. (2011). Corporate water footprint accounting and impact assessment: The case of the water footprint of a sugar-containing carbonated beverage. <i>Water Resources Management</i> 25(2): 721-741.</p>
13	Apr 5	Summary and review	