CIMA

Chartered Institute of Management Accountants

Accounting for climate change

How management accountants can help organisations mitigate and adapt to climate change

Contents

Sustainability is now a core consideration from the board to the shop floor. Our finance business partners play a pivotal role not only integrating sustainability issues into our long-term decision making process, but in the equally critical part they play in ensuring the organisation recognises in a timely way, the risks and opportunities presented by climate change in the day to day course of running the business.

David Smith
CEO
Jaguar Land Rover

1. Overview

Climate change poses a major risk to the global economy – possibly shrinking its output by 20%, according to the 2006 Stern Report. Given the likely effects on habitat, resource availability and consumption, every organisation will be affected.

Tackling climate change is not just a question of 'doing the right thing'. Businesses have a duty to their customers, employees and crucially, their shareholders to deliver long-term value and to manage risk. In other words, sustainability has always been a fundamental strategic goal.

Managing and mitigating climate change must be embedded in our decision making. When it comes to capital expenditure and investment decisions, for example, it is vital that we apply the principles of sustainable procurement and consider long-term implications – financial, environmental and social – rather than just short-term costs.

Management accountants have a key role to play in driving sustainable strategic and operational decisions. But CIMA's research shows that even where finance teams are engaged in climate change related activities, it has often been on an ad hoc basis.

This must change. Management accountants are equipped with tools and techniques that can ensure businesses understand the scale of the problem, come up with viable solutions and ensure they are properly implemented. They have a pivotal role in providing business intelligence to support strategy and influence decision making.

Without the rigour and commercial acumen of the finance function, it may prove impossible to truly embed sustainability into normal business life. Failure for management accountants to get involved now, when key decisions are being taken in areas like carbon trading and compliance with new climate change related regulations, could result in far higher costs, lost opportunities or reduced competitiveness.

CIMA and Accounting for Sustainability (A4S) have conducted an international survey of almost 900 finance and sustainability professionals. CIMA also carried out in-depth interviews with experts in leading companies. This has helped us understand best practice in this area as well as identify opportunities for the management accountant to become more involved.

This report makes a compelling case for every organisation to ensure that its finance team is at the heart of its climate change strategy, whether that's complying with new regulations, mitigating its environmental impact or adapting to new circumstances. Senior decision makers should understand the value that management accountants bring to the issue; accountants themselves should be clear about how to make the case for their involvement and what skills they can bring to bear.

The results of CIMA and Accounting for Sustainability's (A4S) international survey of almost 900 finance and sustainability professionals, and CIMA's case studies illustrating the role of finance in climate change projects, can be found at **www.cimaglobal.com/sustainability**

This report covers four main topics.

- Businesses and climate change – how business is affected and what it needs to do.
- Barriers to change – and how a financial perspective helps overcome them.
- The management accountant's role – skills, tools and techniques that can be applied to help companies mitigate and adapt to climate change.
- Best practice – how organisations can use management accountants to embed a rigorous approach to climate change into strategic and operational decisions.

2. Climate change as a strategic business imperative

Research has shown that one of the most important reasons companies fail is that they 'miss colossal external changes'.[1] That's a definition that can easily be applied to climate change. Like any risk, however, there are upsides and downsides.

Research carried out by the Carbon Trust and McKinsey[2] in 2008 suggested that tackling climate change could create opportunities for a company to increase its value by up to 80% – if it is well positioned and proactive. But up to 65% of value could be destroyed if the company is poorly positioned or a laggard on climate change.

There is stiff competition to secure funding for projects and demonstrating a compelling return on investment in climate change management can be difficult. Strategic, long-term goals also play an important part in ensuring continued commitment to the longer-term sustainability journey.

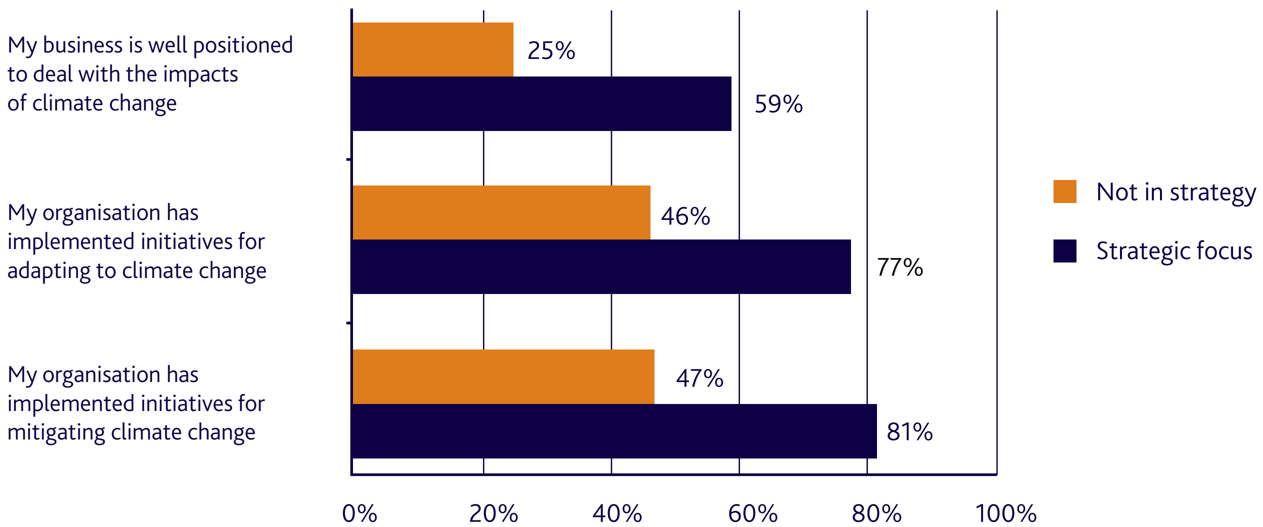
Management accountants are well versed in risk management and have the skills and techniques to support long-term strategic decision making, so it was no surprise that 80% of respondents to our survey think finance professionals have a key role to play here.

Although 56% of our respondents feel their organisation is committed to mitigating climate change and a third believe that climate change is integrated within the overall business strategy of their organisation, 63% agree that their organisation can do 'a lot more' to reduce its environmental impact.

Only 38% say their business is well positioned to deal with the impacts of climate change. Worse, one in five respondents say climate change is not on their organisation's agenda at all. Just 58% of respondents feel climate change is of central importance to their organisation.

That perceived level of importance makes a huge difference and citing sustainability as a strategic goal also overcomes some of the financial return questions on climate change management. 'There will always be projects that can deliver a better return,' says Richard Shore, Controller Global Marketing and Sales at Jaguar Land Rover. 'But our commitment to deliver on long-term targets embedded into our strategic goals is dependent on such projects – so they will get the support and funding.

Attitudes and responses to climate change



Organisations where climate change is a strategic priority are a third more likely to have implemented initiatives for mitigating or adapting to it than those without a strategic focus.

1 Bregory P. Hackett and John Evans, *Why Companies Fail: And the Information Imperatives to Help Ensure Survivability*, Kalido White Paper, 2007
2 *Climate Change- a business revolution?* Carbon Trust & McKinseyCompany, **www.carbontrust.co.uk**

But there remain key questions, even for those organisations that are taking action and adopting a strategic context for climate change, particularly in highly competitive markets or periods of economic uncertainty when funds are scarce. What are they actually doing and why are they doing it?

Many organisations are looking only at the compliance issues with respect to climate change – reporting on and gaining assurance over historic activities in order to comply with regulations, risk management and customer expectations. But managing the risks of climate change and exploiting its opportunities also requires a focus on performance. It's not just about measuring environmental impact or setting up a paper recycling initiative in the office; it's also about fundamental changes to operational activities to deliver real and sustainable change.

That more radical approach demands that climate change action has senior sponsorship. And expert and authoritative balancing of long-term value against short-term costs can create sustainable value for both shareholders and stakeholders. (as demonstrated by Jaguar Land Rover's sustainability governance structure. See full case study at **www.cimaglobal.com/sustainability**)

Compelling external forces

Detailed (and, increasingly financially modelled) evaluation of the risks and opportunities around climate change should compel organisations to act – and act in a more structured and strategic way. External forces are also pushing climate change up the business agenda.

New regulations, driven by co-ordinated legislative efforts on a global scale, are perhaps the most visible factor. A new 'Global Deal' in late 2009 should crystallise the regulatory framework for the longer-term. Costs, such as changes to the tax regime or carbon trading, will become more tangible – and more material to profitability. That massively increases the need for vital business intelligence and demands the use of management accounting tools.

Investor expectations have also changed. Already there are demands for clearer and more reliable reporting of the risks and costs around climate change – reporting that management accountants are uniquely placed to provide. Indeed, one company we visited had been told by one of their institutional investors, 'we have a standard policy of not supporting the reappointment of the Board unless companies are doing certain things' in the sustainability realm. Furthermore, the Goldman Sachs Sustain report, released in May 2009, shows a correlation in carbon intensive industries between carbon efficiency and valuation multiples, illustrating the increasing influence of 'green credentials' on a company's market capitalisation. 'Shareholders want to know what's being done,' says Chris Harrop, Marketing Director at Marshalls Plc. 'A third of our shareholders are signed up to view Carbon Disclosure Project material.'

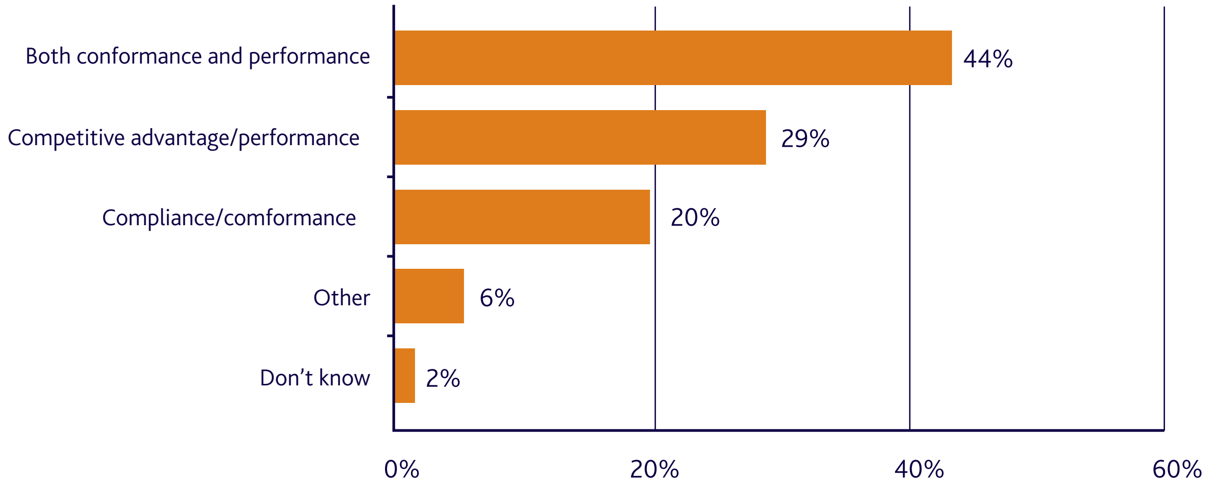
Employees and customers may not be so ruthless in their demands for detailed evaluation – but they still want to know there is commitment and rigour behind climate change activity. 'It is fruitless trying to implement strategies if people are not aware of the reason why, and the benefit to be obtained, from these strategies,' says one respondent to the CIMA survey. 'Finance should first be allocated to education of the masses and then the overall buy-in will manifest itself with the desired results.' This kind of finance involvement is demonstrated in the Punch Taverns case study, which can be read in full at **www.cimaglobal.com/sustainability**

Global economics itself is a major driver for applying accounting to climate change. Spiralling utility costs are a factor, but the economic downturn and global competition has created further demands for operating efficiencies. Aside from fuel savings, businesses are now examining investment in new technologies, plant and equipment requiring rigorous financial and strategic appraisal provided by management accountants. One example of the benefits from investing in steam valve technology is demonstrated by Compass' management accounting team to their NHS Trust client (see case study at **www.cimaglobal.com/sustainability**). The 36% of respondents who have cut back on environmental programmes during the downturn may be missing out on opportunities for long-term cost savings from projects ostensibly designed to further a sustainability strategy.

> *80% of respondents think that the finance function should be involved in climate change initiatives.*

What it means on the ground

Primary drivers for implementing climate change initiatives



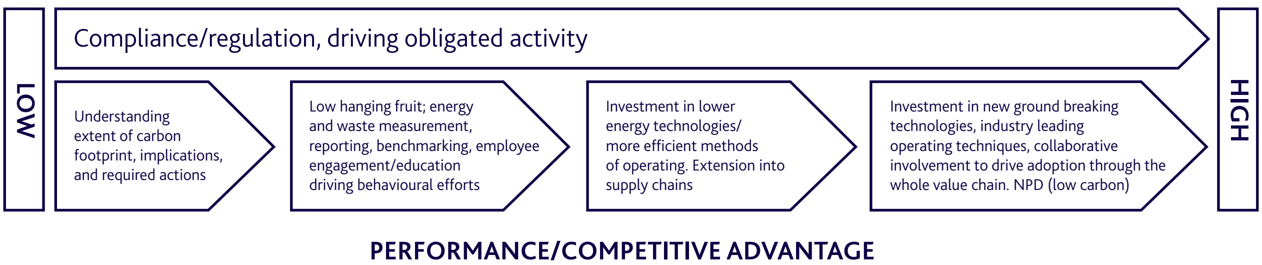
Our survey showed compliance and conformance to be significant drivers for climate change initiatives, with just 29% saying that competitive advantage or performance alone was the primary driver (although regionally the percentage ranged from 14% for Australian respondents to 64% for Chinese ones).

But in many cases, it's not as simple as drawing such clear distinctions.

'Carbon is raw material and energy – and they both cost money,' explains Chris Harrop, Marshalls. 'We all need to be saving as much money in the current economic downturn as possible. More people are actively seeking environmentally and socially beneficial products, so consumers are pushing, too. And both government and key stakeholders are pushing us to reduce carbon footprints, improve ethical sourcing, responsible sourcing and improve biodiversity. So, we either get with it or it will hit us in four or five years and the costs of implementing then will be far, far higher.'

CIMA has found that companies are at vastly different stages in their sustainability journey, often driven by the historic degree of regulation of their business, stakeholder and consumer pressure, innovation – and sometimes the personal ideologies of their CEOs. The range of motivations – and benefits – often depends on the sophistication of an organisation's approach.

Stages of adoption



Source: CIMA

The degree of adoption for some sectors may have been influenced by the early recognition of the likely value creation opportunities or value at risk[3] – calculations made by management accountants. Clearly the opportunities to exploit their skills in sectors only now facing up to the risks, costs and benefits of climate change action are huge.

3 Research carried out by the Carbon Trust and McKinseyCompany in 2008 looked at the likely impact of transition to a low carbon economy. Those with significant risk and opportunities tend to reflect those sectors which now display a high degree of adoption

3. Barriers to change

CIMA is keen to understand why finance professionals aren't more involved in climate change management in many organisations and why more organisations aren't taking concrete steps to manage, mitigate and adapt to climate change. Worryingly, only 29% of respondents to our survey agree that climate change poses a significant risk to their organisation.

'There is not enough being done to raise the profile of this within the business,' said one respondent. 'We have started to bring our thoughts on to climate change, but only for new business not for current operations,' said another. A third summed up one of the biggest barriers to action: 'Other priorities push such issues to the back seat.'

For the finance team, this creates a two layer problem. First, will the organisation and its people commit to a rounded and forward thinking view of climate change? And second, will they see the value in applying management accounting skills?

On the latter question, there is cause for optimism. A key barrier to taking climate change seriously is the need for discipline and robustness around the measurement of the problem, something that the finance function can bring to the issue.

And although on a global basis, finance teams are least likely to have a formal role in climate change policy implementation (30% in our survey), in some countries finance professionals are more deeply embedded.

So while in the UK it's 44% and Ireland just 23%, in China finance functions are more likely to have a formal role in implementation, according to our survey.

We discovered several further key barriers to both acceptance of the need for action and of the role management accountants can play.

3.1 For the organisation

Hearts and minds

Too few employees consider the subject worthy of attention. 'Senior managers are very supportive of a strong sustainability agenda. [But] middle and junior managers want to focus on their day job and see it as a side issue,' said one respondent. 'We are compliant with all environmental laws… but with no financial benefits to the organisation, unless there are legal reasons for making any adjustments or improvements there is no reason to improve,' commented another.

Understanding the issue

'Our biggest problems are identifying a globally recognised reporting framework[4], getting the correct measurements in place for the key contributors; the relative impact factors for each source of emission; and a place to disclose our results publicly,' said one respondent to the CIMA survey. In one FTSE 250 company, capital investment is dedicated to growing the top line. The finance team told us that cost saving opportunities didn't get the same prioritisation. That means projects with a return on investment (ROI) of 40% could have been overlooked because they didn't boost revenue.

'The main problem is cost'

A common barrier is the belief that these initiatives are too expensive: 60% of respondents believe that adapting to the impacts of climate change will raise costs. 'If we increase our costs to accommodate climate change issues… the customer simply moves business,' said one respondent. 'Efficiency, economy and value for money drive decision making,' said another. 'This will be the benchmark against which sustainability will be assessed.'

4 See CIMA's letter, in conjunction with the Prince's Accounting for Sustainability project and other accounting bodies, to the political leaders attending COP15, calling for a single set of universally accepted standards for the measurement, reporting and monitoring of greenhouse gases. **www.cimaglobal.com/sustainability**

Current economic climate

And in the wake of a global credit crunch and recession, it's hard to find the right balance between short-term expectations of customers and investors, and the actions needed to assure long-term continuity and success. While a quarter of respondents said there had been no change in focus, 28% are scaling down sustainability projects and a further 8% feel they will get no approvals for new projects.

Management accountants instinctively see long-term benefits – but are aware of short-term priorities. Said one: 'We should be proactive in tackling this issue – in the long-term it should lead to a lower cost base which is beneficial to all businesses. But in the current economic climate, the sole focus of my company is to stay in business.'

Lack of external pressure

Perceived high costs and need to focus on short-term returns means that without commercial pressure to address climate change, it's hard to justify. 'Most of my clients place little importance on climate change initiatives – their only concern is the bottom line cost to themselves. I'd find it hard to generate business and be competitive if I placed too much importance on this issue,' said one survey respondent.

3.2 For the finance team

Lack of time

The main reason (given by 42% of respondents) for finance teams not giving more than ad hoc support to climate change initiatives is that they do not have sufficient time to get involved. 'We have no spare resource availability, even if we were contacted,' said one finance professional. Another added: 'This is often seen as an add on to an already full role rather than being part of someone's job profile.'

Lack of specialist knowledge or skills

The second most populated reason (38% cited it) was that finance does not have the specialist knowledge and skills to support decision making around climate change. For example, while just 18% of sustainability specialists didn't know how carbon pricing might affect decision making, it is higher among finance respondents (nearly half).

Short-termism

Among sustainability professionals, there was a sense that finance people are too bound up with budgets and targets to adapt to long-term sustainability planning. 'One of the reasons finance are not so involved is they are trained to think short-term. Climate change is a long-term issue and mitigating it, and adapting to it, is a marathon not a sprint they're [finance] just not accustomed to the big picture, the long-term thinking that embedding sustainability really requires,' said the Head of Group Sustainability for one FT 500 company. Although most accountants might argue with that hypothesis, 37% of respondents to CIMA's survey broadly agree.

Finance are trained to think short-term. Climate change is a long-term issue.

No fit with role of finance

A third of respondents felt that involvement with climate change initiatives does not fit with the finance role. 'We can't set a budget for environmental protection,' said one respondent. 'That is not on my boss's agenda.'

Of course, there is a more nuanced way of approaching this barrier, articulated by another respondent: 'There is a place for the finance function in assisting with measurement and reporting – but I would not want the finance function to lead this initiative as it will be seen by the rest of the company as purely cost driven. Communicating the relevant messages on climate change in an effective way, both internally and externally, is a job for the communications and marketing specialists in our organisation.'

Teamwork and communication

In many cases, however, there had simply been no attempt to even establish a role for finance: 31% of respondents felt that the corporate responsibility/climate change team had simply not consulted with the finance team. The majority of this group also felt that there is insufficient communication between different teams.

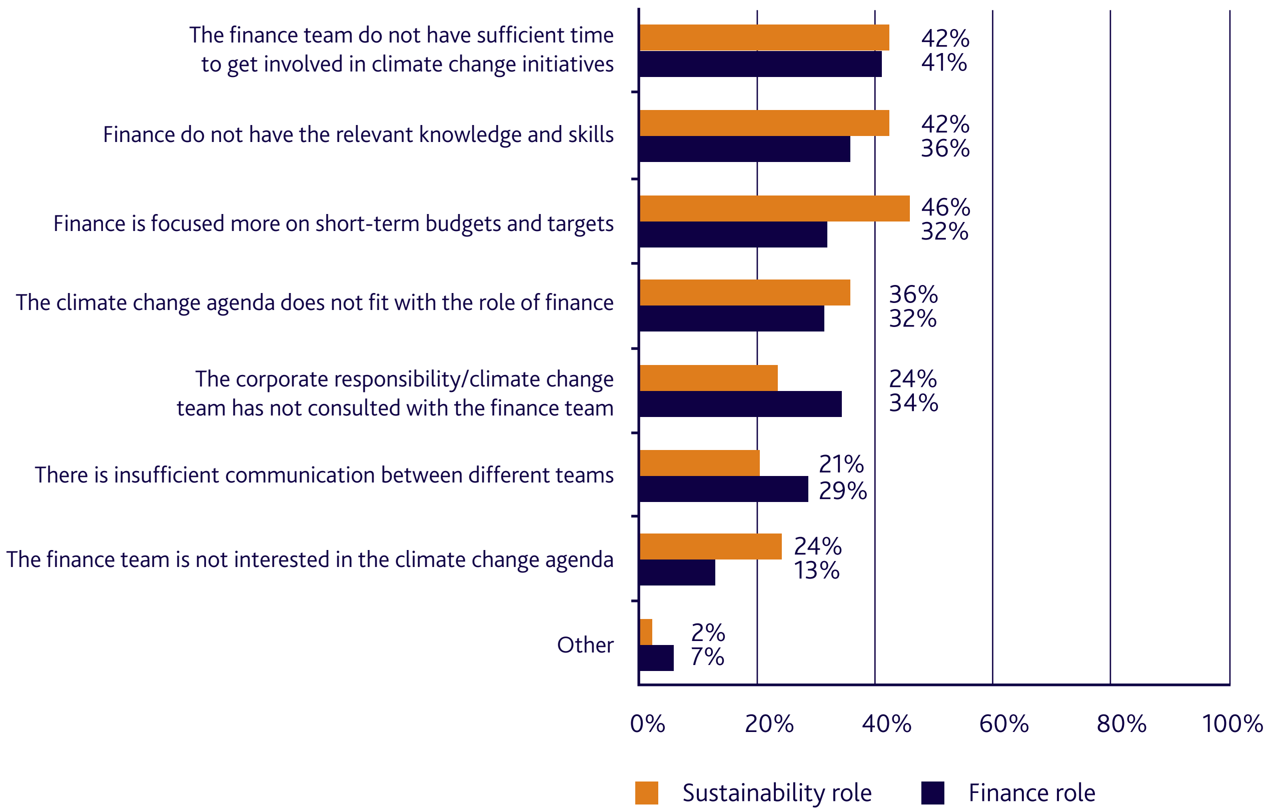
Unsurprisingly, finance respondents are more likely to think the reason they're not involved is that the 'corporate responsibility team has not consulted with the finance team'. Whatever the reasons, there is clearly a need for the two teams to collaborate better to drive the climate change agenda, combining their skill sets to achieve clear and commercially viable sustainability goals.

> *31% of respondents felt that the corporate responsibility/ climate change team had simply not consulted with the finance team.*

Lack of interest (but on whose part?)

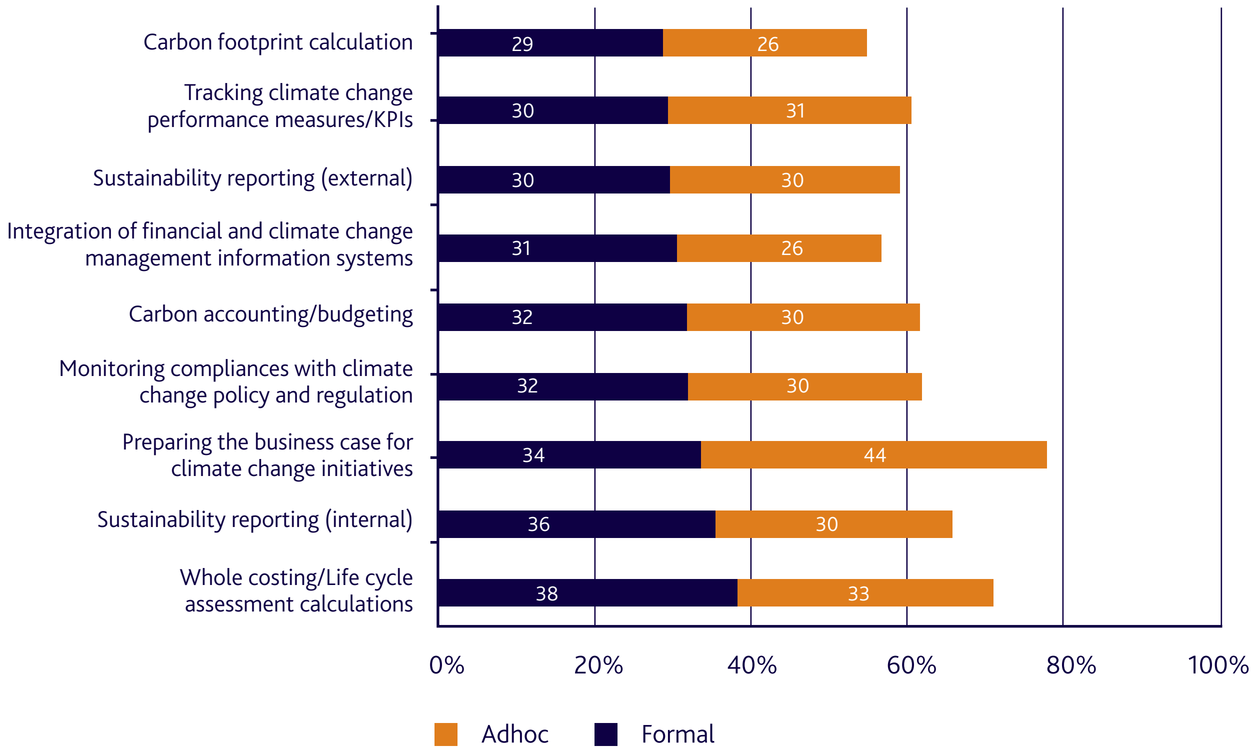
It seems there are those who remain to be convinced of the potential opportunities around climate change initiatives: 17% of respondents (24% among those in sustainability roles) feel that the finance team is just not interested in the climate change agenda. 'The finance department, being led by the management, have to stand on the side of the corporation's interests and pay more attention to its overall strategy [than to environmental sustainability],' said one respondent.

Reasons why the finance function is not currently involved or only involved on an ad hoc basis



4. The management accountant's role

Areas that finance is, or could be, involved in



At the moment, finance has a formal role in developing, implementing, monitoring and/or reporting on climate change in around a third of organisations. The CIMA survey showed that management accountants are typically employed in fairly traditional roles around climate change (see chart, above). For example, the most common formal role is in whole life costing. In the more cutting edge areas such as carbon footprint calculations, tracking climate change KPIs – where there's perhaps less well understood metrics, the finance teams appear less likely to be involved.

Finance teams are most likely to be brought into discussions around the business case for climate change initiatives and in 44% of organisations, that's on an ad hoc basis. One reading of this data is that management accountants are needed to help sustainability experts build a more convincing case for their projects when it comes to attracting funding or top level support.

In Barclays, for example, there is a finance representative on the climate change team – but finance is not integrated into relevant decision making across the group. That's fairly typical of the kind of ad hoc role management accountants play in many organisations. Qualitative evidence from the in-depth interviews also suggests that where an organisation has a strong culture of business partnering, finance is much more likely to be embedded.
www.cimaglobal.com/decisionmaking

CIMA's contention is that management accountants have the skills and tools to make a crucial contribution in many more organisations and across many additional activities. Without the data they own, the analysis they can provide and the discipline they bring to planning, climate change initiatives will struggle to gain either credibility within the organisation or rigour to deliver tangible, sustainable results. Our survey shows this view is widely held: 80% of respondents said finance should be involved.

Two comments from sustainability specialists interviewed for the CIMA survey sum up the problem. 'They do provide that great benefit of impartial validation,' said one. But, added another, while '…we have a whole slew of examples where finance would be involved simply as part of their normal involvement in the capital investment programme… there is not yet any kind of global mandate for finance to help with the environmental costs and assets.'

Changes to regulations might crystallise this as a financial and risk management issue. For example, at the moment, there is a lot of ambiguity regarding the introduction of the UK Carbon Reduction Commitment (CRC, now known as CRC Energy Efficiency Scheme[5]) in April 2010. In the CIMA survey, 60% either do not know if their organisation will be covered by the CRC, or have never heard of it. Of the 20% of the UK respondents who believe they will be covered, only 65% are prepared for compliance – 17% have some way to go, and 19% don't know.

The vast majority of respondents believe finance will be involved – between 83% and 66% dependant on the activity. Interestingly, more sustainability specialists expect finance to get involved in this area than finance respondents do.

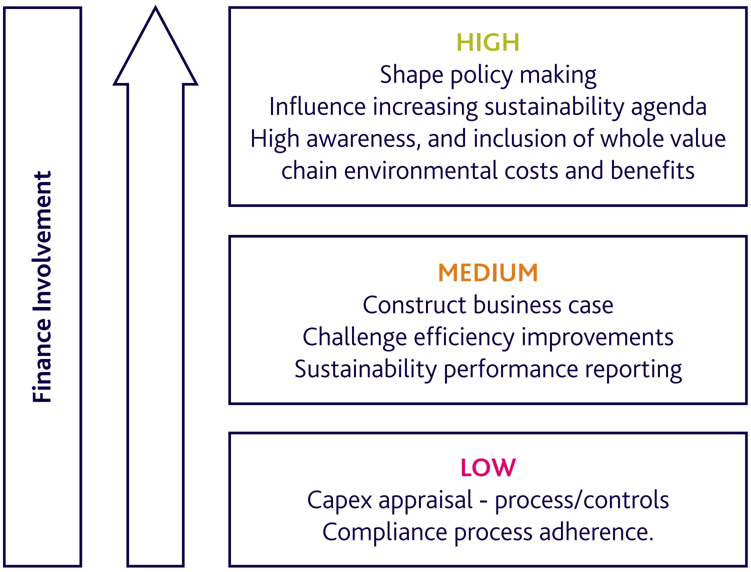
'The finance team bring the right rigour to ensure that we are not just doing it because it feels like the right thing to do,' says Dominic Burch, Head of Corporate Communications at Asda. 'It means we can't get carried away by a wave of populism or the latest trends. These guys can ground us: is it actually delivering what we think it's meant to be delivering?'

> The finance team bring the right rigour to ensure that we are not just doing it because it feels like the right thing to do.
>
> **Dominic Burch**
> Head of Corporate Communications
> Asda

Carbon trading schemes will require more explicit measurement, with an increasing need for accountants to demonstrate the impact of a new financial value for carbon. Over half the companies we surveyed do not estimate the carbon pricing implications of business decisions (although companies outside the UK were much more likely to do so). 'We do a… return on investment analysis with any capital project,' says a sustainability manager at a global consumer goods company. 'But the cost of carbon does not get factored in except maybe on a few ad hoc cases.'

A majority of organisations do look at the financial impact of climate change measures and at the environmental costs of key decisions (about two thirds in each case, according to our survey). These are obvious roles for the finance team, but there's a huge variation in the depth and extent of this involvement.

Differing levels of possible finance involvement



Source: CIMA

The diagram shows that where finance input is low the finance team are typically involved in compliance issues and things such as capex appraisals. Where their involvement is middle of the road you'd expect to see finance challenging efficiency improvements and constructing business cases. High finance involvement would be characterised by their significant influence on the sustainability agenda and the inclusion of environmental costs and benefits for the entire value chain.

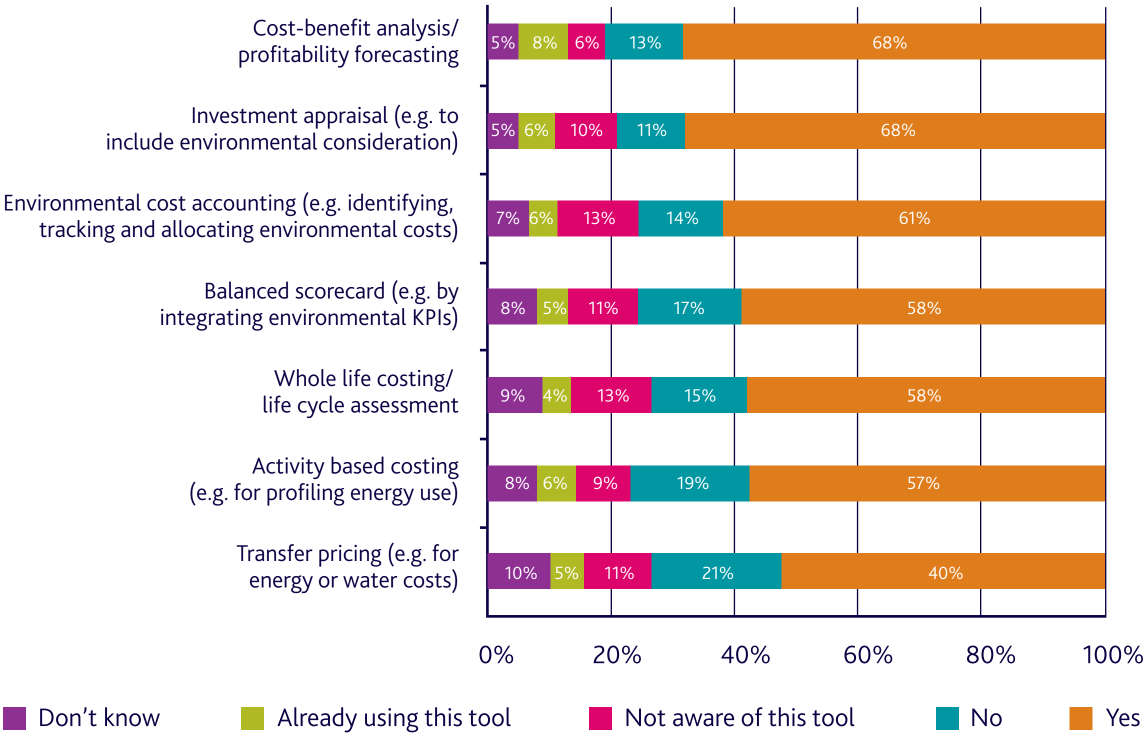
5 More information on UK regulations can be obtained from the department of energy and climate change website www.decc.gov.uk

At the more sophisticated end, Marshalls has developed a system to report across a range of data cubes that cover financial, and non-financial, carbon emission driving datasets. 'The management accountants were heavily involved in the creation of reports that utilised the business' data warehouse for all of the energy costs and materials input costs, because the carbon footprint is everything from raw materials through to the disposal of the product at the end of its useful life,' says Chris Harrop. 'In our case, the full lifecycle assessment is 60 years.' (For more details see the full case study at **www.cimaglobal.com/sustainability**)

Skills and disciplines

So where, specifically, do management accountants fit in? 68% of respondents feel that tools and techniques such as cost/benefit analysis and investment appraisal could be usefully adapted to help organisations manage their environmental impacts.

Do you believe that the following management accounting tools and techniques could usefully be adapted to help your organisation manage its environmental impacts?



Around 60% also felt that whole life costing, life cycle assessment, environmental cost accounting, activity based costing and the balanced scorecard are useful. Just over half saw value in transfer pricing for energy or water costs within an organisation.

Although respondents believe that such management accounting tools and techniques could be usefully adapted, very few organisations are currently using such tools and techniques for managing environmental impacts. But there are a host of ways these skills can deployed.

Management information

There will continue to be conflicting methodologies for measurement, and differing requirements for disclosure, of environmental impact. Management accountants specialise in the provision of accurate, consistent, comparable and meaningful intelligence to their businesses, stakeholders, regulators and pressure groups.

'The CRC use a slightly different approach to the Carbon Disclosure Project, to the Carbon Trust, to the Building Research Establishment – they're all asking for their own form of the information,' says Marshalls' Chris Harrop. 'With this degree of complexity if you haven't got a really strong, robust measurement and reporting system, then you're going to be all over the place. Our finance team and the systems we've developed give us solid comparable information.'

Business forecasting and planning

Preparation for the move to a low carbon economy is essential. The pace of change, and the degree of uncertainty around the decisions of policy makers makes forecasting and scenario planning even more critical. Accountants need to offer deeper insights and more sophisticated forecasts – including scenario-planning and modelling of uncertainty. 'Anybody who's doing a three year plan now and not factoring in energy costs, CRCs, energy trading schemes or ETS type schemes, is getting it wrong,' says Harrop.

In addition, accountants can use project evaluation technique, such as the one used at BP, the sustainability assessment model[6].

> Anybody who's doing a three-year plan now and not factoring in energy costs, CRCs, energy trading schemes or ETS type schemes, is getting it wrong.
>
> Chris Harrop
> Marketing Director
> Marshalls

Financial and cashflow planning

Management accountants are best placed to advise on the availability and best use of cash – particularly where there may be grants or the option of collaborative funding. They can also seek out and offer advice on any tax advantages – such as the Enhanced Capital Allowance scheme in the UK, which enables businesses to claim 100% first year capital allowance on investments in energy saving equipment – or on support available such as tax breaks, interest free financing or advice on measurement of and reporting carbon emissions. Punch Taverns has been working with the Carbon Trust in these areas, for example. (See Punch Taverns and Unilever case studies at **www.cimalglobal.com/sustainability**).

Performance measurement

Benchmarking, league tables and clear reporting enable management accountants to show exactly how their companies are doing in terms of reducing their carbon footprints. Punch Taverns found that through a three pronged approach they have delivered an 11% reduction in energy consumption in their pubs, for example. 'If you don't measure it, you can't manage it and it's had a huge positive impact on the accuracy with which finance could base their accruals,' says Stephen Allen, Head of Property (leased), Punch Taverns. 'Better accuracy takes away all the debate about whether energy management needs to improve.'

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> Stephen Allen
> Head of Property (leased)
> Punch Taverns

Performance management

Measurement is critical and management accountants are well versed in applying targets, key performance indicators (KPIs) and scorecards to ensure their organisation's sustainability strategy is delivering results. But in our interviews and survey only Asda – where the finance team not only produce environmental targets, but disseminate them via portals to each store and use them as part of performance reviews – allied measurement to individuals' targets and bonuses on climate change. A McKinsey study in 2007 found that only 24% of executives around the world (about 50% in the energy and basic materials sectors) say that their companies have set emission targets for operations.

By using voluntary targets, businesses have an opportunity to reduce emissions on their own terms. These targets must be credible: an experienced finance business partner has the skills to ensure that the objectives are meaningful enough to satisfy – and head off regulators who might be tempted to impose a stricter regime. (A further examples of the use of sustainability balanced scorecards can be found in the Masisa case study at **www.cimaglobal.com/sustainability**)

Preparing business cases

Accountants should challenge, but not stifle, ideas by providing measurement and analysis of trials, for example. If new ideas around sustainability fail – and given the lack of established best practice in this area, many might – they should offer avenues through which they could become successful. 'We have a process of trying projects in one, then five, then 20 stores, so we understand all the impacts in financial terms before rolling out to more stores,' says Mark Orpin, Head of Energy Management at Asda. Management accounting feedback during that process is essential.

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6 CIMA, 2006, Accounting for sustainable development performance, J Bebbington, www.cimaglobal.com/research

Investment appraisal

80% of respondents look for payback on climate change initiatives within five years or less.

Investment appraisal is the tool which most commonly brings the management accountant to the table on climate change. 'Finance, and in particular management accounting, can provide the long-term financial pay offs for incorporating environmental control costs,' said one respondent to the CIMA survey.

Accountants may need to adjust their investment review processes – investment decisions will increasingly revolve around carbon regulation and energy efficient technologies, which may be innovative, untested and subject to change. Only 17% of respondents to the survey fully integrate environmental considerations into evaluations of projects, whilst 48% do this to some extent. We also discovered that 80% of respondents look for payback on climate change initiatives within five years or less – which, as the long-term benefits being reaped by companies like Punch Taverns shows – may be unrealistically short.

Cost/benefit analysis

Management accountants can help a business understand the potential cost savings and revenue generation opportunities associated with addressing climate change. Many sustainability projects start out as cost reduction schemes driven by rising energy prices, for example, but that's not the only application of cost/benefit analysis.

The finance team at Asda often use it to help their non finance colleagues understand the success of a project (see case studies). 'Non financial departments help us with a few key metrics which will drive the financial modelling; I can validate those measures and then help them formulate whether something pays back over a period of time in a way that's very simple and understandable,' says Nicola Hargreaves, Retail Commercial Finance Manager at Asda.

Value based management

Accountants are best placed to measure value, whether that be value at risk or a value creation opportunity. Demonstrating the value of the drivers for climate change action allows an accountant to really push the agenda. These drivers fall into four broad categories. Regulation, including both incentives or mandatory penalties; cost of carbon – which will very soon expose competitive differences; consumer behaviour – reflecting their environmental concerns; and technological advances – where proper evaluation will make the difference between sensible long-term investment and money wasted on a fad.

Examples of accountants providing value assessments can be found in the case studies of Marshalls (carbon costs), Jaguar Land Rover (consumer demand and technology) and Fife Council's value at stake modelling at **www.cimaglobal.com/sustainability**

Change management

Accountants set the economic scene, quantifying the gravity of the need for change, and then follow up with potential methodologies and approaches. They can also play a prominent role in helping senior management understand the economic consequences of proposed policy, enabling them to participate in regulatory policy discussions, engage with policy makers and stakeholders in an informed way – perhaps even enabling companies to work with public and private stakeholders to shape the regulatory environment. (For examples of accountants helping to shape new organisational approaches in this way, see Asda's presentation of CRC regulations.)

Carbon management

One in five UK respondents to the CIMA survey believe they will be covered by the Carbon Reduction Commitment (CRC). A high number of these respondents feel that the finance function will or could be involved in compliance with the CRC. This includes traditional roles such as monitoring and managing energy use (82%), and new areas such as budgeting for carbon usage (78%), preparing carbon footprint and annual emissions reports (77% and 74%), purchasing and surrendering allowances (71%), and recording transactions of carbon allowances and recycling payments (83%).

External reporting

Many companies are required to include environmental performance reporting alongside their financial disclosures: 59% of survey respondents stated that finance were involved, or could be involved (21%) in external sustainability reporting. There were many examples found where finance was involved in the production of the external reports for their businesses, either simply from a consolidation perspective, or in actually producing the intrinsic figures.
(See Cathay Pacific and John Keells Holdings case studies at **www.cimaglobal.com/sustainability**).

5. Best practice: management accountants and climate change

According to the CIMA survey, nearly half of organisations have a separate corporate responsibility or sustainability committee and finance is represented on over 80% of them. A third of respondents stated that the committee is actually chaired by the Finance Director or CFO. This finding was more common for international organisations than UK organisations.

Asda is a great example of how finance can be integral to these cross functional bodies. Its sustainability strategy is delivered via a group called the CSC (Change Steering Committee). The finance team are stewards of the process, and pull together materials for management and development of all sorts of initiatives including those specifically focusing on delivering sustainability targets. Read Asda's full case study which gives more detail of the role finance plays in this forum at **www.cimaglobal.com/sustainability.** There are also further examples of good frameworks for sustainability governance in the Jaguar Land Rover and John Keells Holdings case studies.

But it's up to each organisation and their executive team to apply the skills and disciplines of management accountancy to their own climate change initiatives in the most appropriate way. A number of survey respondents shared with us how they overcame barriers to more widespread acceptance of their sustainability agenda.

Use of measurement tools 'Investing in tools to allow us to measure electricity consumption and to weigh our waste also helped a lot,' one respondent told us.

Focus on cost savings 'We have an environmental committee which is focussed on recycling, reduction in energy and water usage, and so on. But they are driven by cost factors rather than climate change,' said one respondent. Another added: 'I think that as long as it is cost effective any company would be willing to do more for climate change.'

Use CRC, or other cap and trade regulations – 'CRC has enabled discussions on this agenda at board level,' said one sustainability expert. 'Costs charged directly to the company – such as the climate change levy – have a greater impact on decision making in this economic climate than non quantitative environmental issues which do not immediately hit the bottom line.'

Highlight customer motivations to be low carbon consumers – 'We sell plumbing and heating products, so if we don't embrace the changes we could lose market share,' admitted one respondent. 'We need to be ahead of all environmental issues to ensure our product range meets customer and legislation requirements. We have built a sustainable visitor centre so that they can see our product offerings in use on a day to day basis.'

And after the easy wins?

Each of those steps can benefit massively from the involvement of management accountants, not least in evaluating in the longer-term cost/benefit of the decisions and managing related risks that are often hidden from less expert eyes. But management accountants come into their own when organisations commit to the essential embedding of sustainability into 'business as usual' and in delivering on long-term projects.

If you are interested in sharing your own insights and experiences in this area, we would be delighted to hear from you. Please email us at **research@cimaglobal.com**

Among the great examples we found of this holistic approach paying off, one of the most compelling is Asda. 'Most businesses are now going after the easy wins – using less energy, turning lights off, being a bit smarter about packaging and logistics,' says Dominic Burch at Asda. 'Where the relationship [between finance and the business] can and will develop is helping us work out how we unlock the potential in the next ten years – because it will become harder and the challenge is going to get even tougher.'

Asda: knitting finance, ops and sustainability together.

One of the reasons Burch is hopeful is a general open mindedness about finance in the organisation. 'At Asda we move people around different departments, and finance people have to be generally quite broad,' says Hemant Patel, ACMA, Retail Finance Director. 'Our Head of Energy Management has moved out of the finance area, for instance, and moved into core operations. We've got lots of examples of finance people doing that'

That helps ensure that the management accountants' skills aren't just applied to niche financial areas of sustainability projects. 'We have ongoing relationships, it's part of our business as usual activity,' says Karen Todd, Head of Planning and Programmes. 'We work as a joint management team with a finance representative in the non financial areas. So finance is evaluating the project as it lands – then on an ongoing basis, they will do a post implementation audit and help to carve out the strategy as it develops. It's not just purely about the numbers stacking up. It's an ongoing organic process.'

Read Asda's full case study at **www.cimaglobal.com/sustainability**

'Finance is embedded into each of our operations – product development, marketing and sales, purchasing and manufacturing, admin and so on,' says Richard Shore, Controller of Global Marketing and Sales. 'Finance itself is a close knit community and most people have rotated between the different finance areas. This gives us a strong cross functional stance and corporate viewpoint that ensures finance is not only welcomed, but invited into the core of our project teams.'

Jaguar LandRover: successful business partnering.

In this case, a strong existing reputation means management accountants are always part of the mix. 'The sales and marketing function very much understands the value finance brings to the team, that they are good implementers and have a structured approach to process which facilitates timely delivery of complex projects and ensures that the right controls are in place to ensure the on going processes are sustained,' adds Shore.

Read Jaguar LandRover's full case study at **www.cimaglobal.com/sustainability**

npower is dedicated to helping UK businesses use energy more efficiently and therefore spend less money on their bills and reduce carbon emissions. It provides companies with the tools and advice to monitor and manage energy consumption effectively. Once energy use has been accurately monitored, npower works with companies to help them implement energy-saving measures. With the support of senior management and the whole team, companies can achieve substantial savings and improve their sustainability performance. The need for accurate reporting tools and systems ensure the management accountant is instrumental to the success of any organisation's sustainability drive.

npower: energy saving measures.

Other case studies available to download at **www.cimaglobal.com/sustainability** include: **Asda**, owned by Wal-Mart, the UK's second largest supermarket, **Marshalls**, UK's leading supplier of landscaping products; **John Keells Holdings**, largest listed conglomerate in Sri Lanka; **Unilever**, global manufacturer; **Cathay Pacific**, Asian airline group; **Masisa**, Chile, leading forest products company in Latin America; **Fife Council**, the third largest local authority in Scotland; **Jaguar Land Rover**, luxury and premium 4x4 car manufacturer; **Compass**, one of the largest food and support service businesses in the world and **Punch Taverns**, one of UK's leading pub group.

A call to action

Organisations in all sectors and of every size face crucial questions about adapting to climate change and its associated risks and regulations. The adoption of climate change as a strategic imperative will soon become critical to their overall long-term viablity.

Our survey has shown that sustainability specialists want and expect to get help from finance. But can management accountants afford to wait until their sustainability colleagues think it's time to start engaging?

Many people seem to be confused or unclear about what their organisation is doing around climate change and the true level of involvement of different parties. A structured business planning team with strong finance representation would create more clarity throughout the system – addressing the uncertainty reflected throughout the research we carried out.

If climate change initiatives became an integrated part of the business plan, they can be accounted for in the finance department's agendas. Integration and strategic clarity would also help overcome poor communication between different teams, which currently hampers reliable and robust climate change decision making.

With environmental issues becoming far more measurable and with increasing regulation and legislation inevitable it is time that communication and inter departmental relationships are improved. Finance professionals need to become more knowledgeable about the risks and opportunities that climate change presents, and act as agents for change in raising the profile of the climate change agenda in their organisations.

Climate change is a long-term issue, with a need for long-term solutions. Without strategic intent, organisations can at best expect to chase regulation, and at worst, be lagging behind their competitors and find themselves with an unsustainable business model.

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