All companies are aware of climate change and the possible environmental impact of man-made carbon emissions. The message has been clearly spelt out for many years, but now there is a change in how businesses view carbon management. It is no longer just a marketing and branding issue, and the days of green-washing are numbered. It is now a financial issue.

Viewing carbon emissions in an economic context, as well as in terms of corporate and social responsibility, is particularly important at a time when oil and commodity prices are historically high. Pressure on input costs encourages a financial perspective on climate change, which is closely tied to the pursuit of efficiency.

Finding this efficiency requires a company to look at both the physical and financial supply chains.

‘The Stern report shifted the focus to economics. People cannot ignore the materiality of climate change,’ says Nigel Topping, Head of Supply Chain for the Carbon Disclosure Project.

‘This goes beyond what the corporate and social responsibility lobby talks about. Climate change is now taken seriously in the boardroom. There are telling signs of

‘Finance is crucial to the creation of green supply chains, it can highlight cost savings and provide a clearer view of risk.’

Costing the earth

Carbon management is not the only way to tackle climate change but it is at the top of the agenda for large enterprises and it is no longer seen simply as a cost or compliance issue. Excellence in Leadership spoke to Carbon Disclosure Project’s Nigel Topping about the growing call for companies to unearth the savings and risk mitigation it can stimulate.
this, like the number of board members who have climate change in their portfolio. It is not ‘green geeks’ who take responsibility for it, but someone who focuses on generating corporate value.’

The Carbon Disclosure Project (CDP) is an independent, not-for-profit organisation that aims to create a lasting relationship between shareholders and corporations, to highlight the implications of climate change on shareholder value and commercial operations. It works to facilitate a dialogue, supported by quality information, which will inspire a rational response to climate change.

CDP acts as a coordinating secretariat for institutional investors with a combined $57 trillion of assets under management, on whose behalf it seeks information on the business risks and opportunities presented by climate change, and greenhouse gas emissions data from the world’s largest companies. In 2008, it collected such data from 3,000 global organisations.

In the last eight years, CDP has set the standard for carbon disclosure methodology and process. Its publication of corporate greenhouse gas emissions data is a catalyst for policymakers, consultants, accountants and marketers to respond by measuring, managing and reducing emissions.

“We want board members to get excited about carbon management and the value they can generate,” explains Topping. “There has been a huge shift as companies look not only at their own operations, but the entire value chain proposition. The lightbulb has come on.”

From ideas to action
There has certainly been a shift in mentality, as more companies hand climate change issues to senior executives. Nevertheless, levels of commitment vary greatly between enterprises. Some lead, others lag.

‘Organisations are taking a lead but in very different ways. The likes of Tesco and PepsiCo have taken a methodological approach and are committed to the Carbon Trust. They are also committed to carbon labelling, though industry is undecided on whether that is sensible. Wal-Mart is taking a lead by attempting to change whole industries and is incorporating carbon measurement into its vendor assessment. That means it’s an active issue for at least 65,000 companies just through one retailer’s efforts,’ remarks Topping.

Unilever is another leader on sustainability, and its efforts show that the focus must go beyond carbon management. Water, packaging and the sourcing of raw materials are equally important to many businesses.

‘Other companies are innovating around a more holistic view of supply chain risk. For instance, they are looking at water, which is a major risk, particularly as patterns of precipitation change. There is serious adaptation risk as companies find themselves reacting to a changing situation. Yet carbon remains the key focus, though it is only a subset of the broader climate change skill set,’ Topping adds.

As climate change steadily becomes a core part of strategy there is a growing realisation that business has the power to drive the issue forward. There is still a long way to go, however, before this new mindset produces concrete, practical results.

‘The maturity of companies’ ability to act is very much embryonic at the moment,’ admits Topping.

As climate change is viewed in economic terms companies want better legislation to help them respond.

‘Corporates are leading governments and investors. Businesses want clearer regulatory frameworks,’ Topping adds.

Focus on the financial
It is evident that efficiencies in energy consumption, for instance, can be gleaned from the physical supply chain. It is also vital, however, to focus on the financial supply chain, particularly as any effort to reduce carbon emissions must involve

Supply Chain Leadership Collaboration: key facts.
In May, CDP announced the findings of its first Supply Chain Leadership Collaboration, in which Cadbury Schweppes, Dell, HP, Imperial Tobacco, L’Oréal, Nestlé, PepsiCo UK & Ireland, Procter & Gamble, Reckitt Benckiser, Tesco and Unilever all measure carbon risks and liabilities in the supply chain.

Each member of the Supply Chain Leadership Collaboration has selected up to 50 suppliers to work with them and to respond to the CDP pilot information requested in the first quarter of 2008. The results of the pilot will help customers and suppliers to work together to develop strategies to reduce their carbon footprints. Some members will work with suppliers at national level, others will work internationally.

Supplier responses generated the following statistics:

- 58% of suppliers report scope one and two emissions (own fossil fuels burnt and electricity purchased)
- 12% track scope three emissions (indirect emissions stemming from sources owned or controlled by others)
- 96% see greenhouse gas regulation as a potential risk
- 58% see reducing energy consumption as the best means of managing climate change risks
- 26% have established greenhouse gas reduction targets.
suppliers and customers. Collaborative effort is a must.

Improving the management of working capital and ensuring suppliers are part of win-win relationships is important if organisations are to work together towards common goals. Finance is crucial to the creation of green supply chains, especially as it can highlight cost savings and provide a clearer view of many aspects of risk.

Viewing a business from the carbon perspective is widely seen as a proxy for energy cost management, which is certainly important in the current economic climate, but it also stimulates enhanced risk mitigation policies, and catalyses companies to look at environmental performance and reputational gains.

‘Companies are focusing on their own operations, when there are reasons to look up and down the supply chain,’ says Topping. ‘Whatever reason they choose, companies will find ways to identify waste that was not seen in the past. Once a company has invested in energy efficiency it will see the returns, but there is a need to focus on the whole value chain.’

The input of the finance department is also crucial in a company’s attempts to balance the demands of short-term reporting with long-term value creation. This is already an issue with which boards battle on a daily basis.

‘No one on a company board will destroy long-term value willy-nilly,’ notes Topping. ‘To create lasting value a company must look at its financial supply chain, not least to improve supplier relationships and sustain mutual benefit, instead of squeezing suppliers for short-term financial gain.

Furthermore, Topping advocates focusing resources and clarifying who is responsible for managing environmental impact through the financial and physical supply chains. He wants to see senior board members take on that responsibility, and believes that although some companies may install chief sustainability officers, it is likely to fall to the CFO.

‘It needs to be someone who understands a basket of risk. Logistics is only part of the supply chain,’ he notes.

There can be no doubt that carbon management is about hard numbers and business performance. After all, Walmart does not claim to be a green company, despite it huge effort to influence its suppliers’ environmental performance. Its efforts are geared towards running a successful business. It is good for business to cut out costs and futureproof an enterprise against the effects of changing markets.

‘Climate change management is the overarching new skill set. Carbon management is an accounting process. The tools and software are developing rapidly, but they are nothing without the right level of understanding of climate change at board level. In some companies the debate is at too low a level to interest boards, which is why carbon mapping is so important,’ says Topping.

Carbon mapping frames climate change firmly in economic terms, and Topping urges companies to work faster in mapping their value chains.

‘It helps a company to understand why it is engaging with each stakeholder. Our supply chain work is having an effect and both customer and investors are asking for information on carbon management,’ he remarks.

‘There is a ripple effect from the big companies leading on the carbon issue. Our pilot programme showed the importance of collaboration, so we need to get the big organisations working together.’

A platform for the future

The challenge of climate change is likely to become greater in the years ahead. If a company has any kind of long-term strategy it will pay to plan ahead.

‘We have reached a point where companies have a much more balanced view of the opportunities, the risk and the cost. If you are a thought-leader you see the risks ahead, so risk mitigation is important. Reducing carbon footprint is at the very least a good hedge against the time regulations start to bite,’ says Topping.

His caveat, however, is that any claims a company makes about its actions on climate change must be firmly substantiated.

‘The days when an oil company can propagandise about carbon-neutral operations are numbered. If you look at the entire lifecycle of oil products it is clear that offsetting drilling operations is not enough. Banks, too, must look at the impact of their portfolios of loans,’ adds Topping.

From his own experience mapping supply chains in the automotive industry, Topping is familiar with the need to find and eliminate waste.

‘That is nothing new, but now we have a new pair of glasses - the carbon glasses,’ he explains.

As the CDP helps industry achieve clarity on climate change it seems likely that accountability and practical action will soon follow.

Nigel Topping

Nigel Topping joined CDP in 2007 to lead their supply chain work. He has extensive experience in industry, having recently held the post of senior vice-president for a global automotive component company. His previous work in manufacturing consultancy and operations included assignments in Spain, the USA and Germany. He has significant experience in emerging markets, having led projects in Brazil, India and China.

Topping studied Mathematics at Cambridge University and completed his MSc at Schumacher College, where he studied climate science and the industrial response to global warming. He also has first-hand experience of some aspects of climate change, having been a member of various scientific and mountaineering expeditions to the icecaps of Greenland, Iceland and Patagonia.