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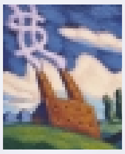

Management Quarterly

The aim of **Management Quarterly** is to provide Faculty members with a detailed review of a topical management theme, offering a range of articles which explore that theme and illustrate the practical application of management techniques.

This builds on the strategy of the first four years of the publication, when it followed some of the major threads of an MBA syllabus. Over that period, articles built up into a comprehensive overview of the knowledge needed to operate a successful business. The reader was enabled to understand current issues and debates in these areas, and distinguish core ideas from current fads.

Each part of **Management Quarterly** is self-standing, including useful references and details of further reading. Writers are selected from leading business schools, consultancies and professional institutions. Experts in each field explain and discuss the relevance, practicality and usefulness of key new concepts and ideas, thus enabling the senior executive to keep fully up to date.

This issue of **Management Quarterly** is edited by the financial writer Helen Fearnley.

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Foreword

By **Chris Jackson**, Head of the Faculty of Finance and Management, ICAEW.

A few years ago the terms 'corporate social responsibility' (CSR), 'sustainability' and 'environmental accounting' were not generally known by accountants. We have moved a long way in recent years but we are still in the period of early adopters, and now is the time for Faculty members to become aware of the issues and start to take a view.

Views on CSR tend to be polarised. At the one end are those who believe shareholder value is key and that CSR is not part of shareholder value. The cynical will also argue that CSR is a touchy-feely fad which will soon pass and that the resulting reports can be dismissed as 'greenwash'. At the other end are those who see benefit in CSR, either because it is, in itself, good for the business, or because it is the 'right' thing to do.

There is some confusion as to the scope of CSR and sustainability. There is no generally accepted definition of CSR. Some would define it very narrowly, such as the attention of business to socially responsible employee relations, products and processes and community involvement. Others take a wider view. The triple bottom line is concerned with reporting the external social, economic and environmental impacts of a business. We take a broad and inclusive view.

The contributors to this *MQ* put the case for CSR but also identify concerns and pitfalls. They take a high level look at the background to CSR, at reporting and the links to organisation brand strategy. This *MQ* also examines accounting issues and summarises the Envirowise guidelines for environmental management accounting.

It is easy to disregard CSR as only relevant to businesses working with finite natural resources such as oil, water and forestry or those where environmental or social issues are key. But as the contributors make clear, CSR relates to the customer base through corporate reputation and brands; to the current and future work force by influencing the views of the best people as to the type of company for which they want to work, as well as to issues concerning the supply chain. The finance professional can play an important part in understanding and bringing order and discipline to these matters.

In the UK we find ourselves positioned between the more progressive countries in continental Europe and the more legalistic approach of the US. The debate over how the UK approach develops will be fascinating.

There are many issues surrounding CSR and what might happen next. The Faculty is keen to ensure that members are brought up to date and participate in the process. To this end we will be holding a high level debate on the subject on 21 October 2003 at which an invited audience, including all Faculty members, and other key decision makers and professionals will discuss some of the more contentious aspects.

For several years, the Institute's Environment Steering Group has taken an interest in the treatment of environmental issues in financial reporting and auditing. With the increasing need to review external initiatives on other related topics, this work has extended to areas such as CSR and sustainability reporting. However, there are differing views regarding the extent to which chartered accountants have a valid role in these areas.

In May 2003, the Institute therefore embarked on a project on the future role of accountants in relation to sustainability that will consider the opportunities and limitations involved. If you have views on the matter, please let me know so that I can pass them to the project manager. MQ

Why CSR is relevant to your business

What exactly is corporate social responsibility, what have been the recent developments within it, and why is it relevant to all companies? Independent consultant and chartered accountant **Nick Brown** explains the strategic issues involved.

Terms such as 'corporate social responsibility (CSR)' or 'sustainability' can strike fear into the hearts of many business people. Despite this, a growing band of companies ranging from BP to The Body Shop have already embraced these principles, either voluntarily or in response to growing regulatory pressure. But during the current economic slowdown, are they right to invest cash and earnings on going green or would they be better off investing in core activities?

Sustainable development meets the needs of the present without compromising the ability to meet those of the future

CSR is a new and rapidly changing field. This article sets out the background behind the prominence of CSR as a business issue today, considers the arguments for taking action and gives generic guidance on what initial actions should be taken. It is not intended to be a complete list of all the initiatives currently in progress or to provide specific advice on how to respond to them. Instead, detailed advice should be sought where appropriate.

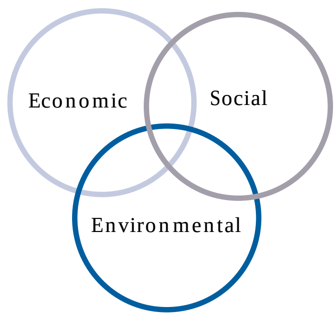
The origins of CSR

CSR and sustainability are intertwined, and they are full of jargon which has served to cloud our understanding of them (a selective glossary is published on page 36).

The current meaning of sustainability or sustainable development was first coined by the Brundtland Commission in 1987. This commission was formed by the UN and defined sustainability as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. This has been interpreted to mean action should be taken to improve environmental protection, social equity and economic growth. It was recognised that this would require technological and social change.

Sustainability is often represented pictorially as in Figure 1 (below). This model gives rise to the so-called 'triple bottom line' form of reporting, where each of the silos is reported on to stakeholders, the holy grail being an integrated, balanced report.

Figure 1 Diagrammatic representation of sustainability



Considering the model, environmental impact is relatively well understood and understanding of social responsibility has increased rapidly in recent years. However so far there has been little progress on understanding the economic silo, let alone managing or reporting it – even though this is the area of sustainability which is likely to be most important for business as it seeks to protect its economic assets and deliver sustainable earnings over the longer term. Numerous points arise from consideration of this model, but some of particular note are discussed below.

Governments have embraced the 'sustainability' principle

Sustainability is a macro-economic concept with the purpose of securing a global equity and redistributing resources towards poorer nations whilst encouraging their economic growth. This clearly applies to nation states and necessarily requires the action of governments and citizens in realising its objectives. Such action is anathema to many business people. However in the UK, Europe and a number of other nations, these principles have been firmly embraced by governments.

One of the areas where this most frequently arises is the environmental issue of greenhouse gas emissions. It is here that strong evidence arises as to how the UK government intends to implement sustainability. The establishment of the UK's Emissions Trading Scheme firmly places the responsibility on business to achieve the UK's obligations in this area under the Kyoto Protocol through the application of market forces. The government has given a clear message that this is a core element of its sustainable development activity. A number of other examples of how this is becoming reality are discussed later in this article.

Indeed leading protagonists for sustainability such as Jonathan Porritt (co-founder of Forum for the Future and chairman of the UK government's Sustainable Development Commission) have come to believe that markets are likely to prove the only effective mechanism for delivering the UK's obligations.

Notwithstanding its macro-economic nature, this brings sustainability firmly into the province of individual businesses.

Vocal activist stakeholders are driving a large part of the agenda

Although the government is responsible for generating market mechanisms, a large part of the agenda is being driven by a body of vocal, activist stakeholders who seek to engage with government and individual businesses to realise their objectives.

These groups have sought to impact on and influence the activities of business managers and government. They take the form of pressure groups (including non-governmental organisations [NGOs] such as Greenpeace), with a focus on the environment, or social responsibility, or often a single aspect of these areas.

These groups can have a major effect on businesses. Look at the example of Stop Huntingdon Animal Cruelty – a single issue pressure group which has caused Huntingdon Life Sciences to change its banking and auditor relationships and has significantly affected the lives of employees and executives despite the case of either party being unproven. This is symptomatic (if a rather extreme example) of a move from the old 'trust me' world, where companies were believed, to the new 'show me' requirements of cynical stakeholders who require high quality evidence before they accept statements from corporates. And these stakeholders are capable of making their voices heard.

No campaigner consensus on appropriate action

Interestingly there is not always consensus amongst these campaign groups on the most appropriate course of action to be taken by corporates. In addition they demand that companies be accountable to them when they have little or no accountability of their own. Despite this, there is a general perception that society and, most importantly, consumers trust NGOs more than companies.

Complex management proposition

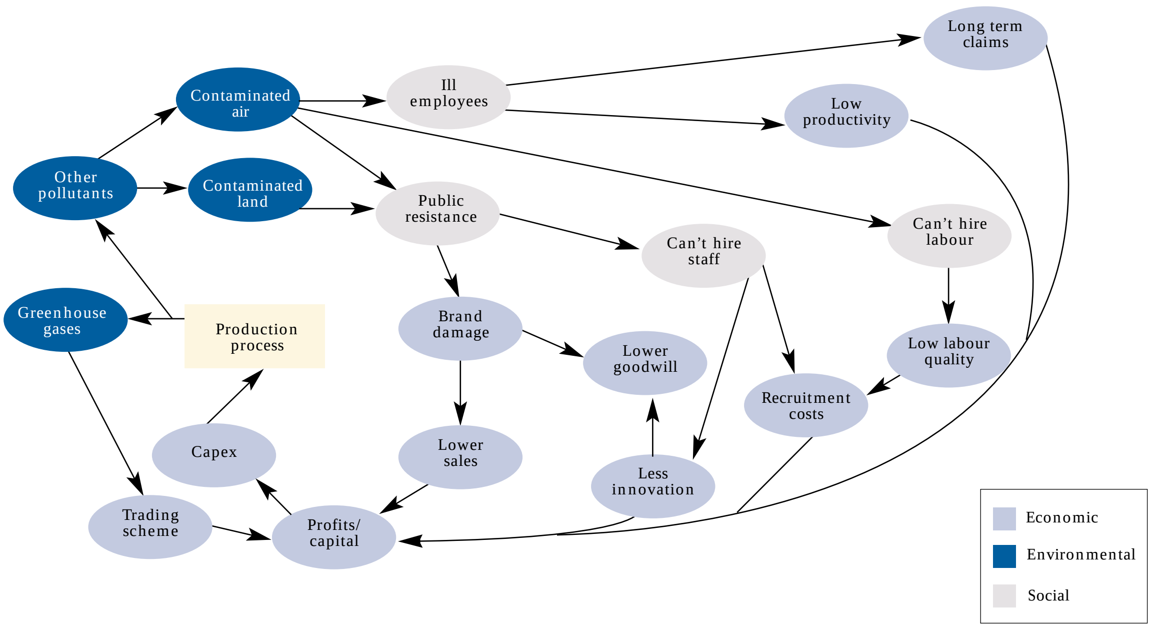
Managing sustainability is complex for businesses due to the interactions between each of its three components. This is perhaps best explained by considering the situation of a manufacturing business which as part of its operations emits noxious pollutants.

The diagram (Figure 2, overleaf) demonstrates the complex relationships that exist between sustainability and business where an issue can affect the environment, the local community and the economic assets of the business such as its reputation, and ulti-

> The UK's Emissions Trading Scheme puts responsibility on business through application of market forces

> The general perception is that society and consumers trust NGOs more than companies

Figure 2 CSR interactions for a theoretical polluter



mately cash. Indeed the community impacts best represent the meaning of 'corporate social responsibility'.

Campaigners focus on principles, not financial impacts

There is frequently little discussion of the financial impacts among campaigners for sustainability, who remain largely focused on principles. Whilst government seems willing to accept market forces, including the activity of the capital markets, in bringing about change, this is largely ignored by most campaigners.

This situation is exacerbated by the absence of a single 'currency' with which to measure sustainable performance (or an exchange rate between each of the three sustainability silos).

The business case for sustainable development

Implementing sustainable principles entails investment, but can also generate returns

Whilst implementing sustainable principles in a business will necessarily entail investment, that is not to say that this investment will not generate a return. The World Business Council for Sustainable Development believes business can benefit from pursuing sustainable development through driving cost efficiencies and by generating top-line growth through innovation and development of new markets.

For example, waste minimisation and energy efficiency strategies are good for business, as well as the environment and can have a positive effect on a company's:

- reputation;
- relationships with its stakeholders;
- innovation and competitive advantage; and
- (consequently) reduction of costs and enhancement of income.

This goes beyond developing new technologies to generate new ideas, re-think business models and identify new products, services and markets. Conducting business activity with regard to social responsibility to communities and the environment can help reduce risks, enhance brand value and corporate reputation, encourage customer loyalty and motivate staff.

The shift from traditional forms of business requires new forms of reporting

At the same time as the pressure began growing for companies to be more responsible, it became apparent that British industry had undergone a fundamental transition away from traditional businesses (based on utilisation of financial capital such as real property or plant and machinery) to those increasingly basing their propositions on intellectual capital such as people or reputation. This is the province of economic sustainability.

Financial accounting continues to perform reasonably well in measuring financial capital but performs badly when measuring knowledge or people (which it treats as costs rather than assets or value generators) and is less adequate still for measuring reputation.

The Centre for Tomorrow's Company (CTC) in its report, '21st century investment' takes this further, recognising the impact on business behaviour of changing demographics, the rise in importance of intangibles compared to traditional financial assets and the growing importance of social, ethical and environmental considerations.

It has developed the concept of sustainability to the term 'durability' by which it means long term growth in the value of a business. It recognises that companies which do not embrace sustainable development cannot be durable and that this consideration needs to be reflected by the capital markets in the investment decision making process.

Under UK law, the directors of companies are required to act for, or on behalf of, or in the best interests of the company and specifically to:

1) act in the bona fide interests of the company, generally taken to mean its body of shareholders;
2) act for proper purposes, ie within the context of the company's constitution;
3) act solely in the interests of the company and not for their own personal gain or those of other third parties unconnected with the company; and
4) exercise due care, skill and diligence.

This has traditionally been interpreted as creating a fiduciary duty to protect assets and maximise values through taking risk to earn a return.

It is the latter two points that are of perhaps most interest here. The third point, in particular, reinforces the need for directors to follow the Anglo-Saxon model accepted in Britain (Figure 3, right).

The traditional interpretation of this is that directors are prevented from acting on the inputs of external lobby groups advocating a different approach unless this is in the interests of the company and by inference, the shareholders. By contrast, the European attitudes and their business model is much more inclusive. Not only are businesses expected to provide returns to investors, there is also recognition that business has a broader role to play in the wider community by, amongst other things, providing employment.

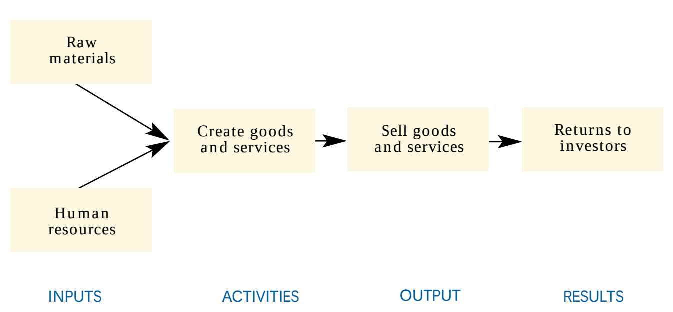
This difference from the traditional UK model manifests itself in numerous ways including works councils in Germany, representation of employees on boards and the French willingness to intervene to protect the interests of employees. The most prominent example of this in the UK in recent years is the experience of Marks & Spencer's attempt to implement its rationalisation plans in France. It was required to have a social plan approved by the courts which recognised the needs of employees when closing stores. No such action would have been required in the UK. However, if it can be demonstrated that effective management of the wider business impacts along the lines of the European model is of benefit to shareholders, UK directors would be justified in – indeed obliged to – adopt this approach.

Companies which do not embrace sustainable development are unlikely to be durable

These illustrations demonstrate the growing number of new and complex challenges and risks faced by business managers in the 21st century.

This creates the need for new and more

Figure 3 Anglo-Saxon business model



diverse forms of reporting and communication to meet the demands of stakeholders.

The business case – and the doubters

Having considered some of the drivers and implications of CSR being advanced by government and other interested parties, we must consider whether embracing CSR is beneficial to business over and above the necessity to respond to government regulation.

As yet there is no proven business case of the business benefits, but anecdotal evidence is growing

Best practice dictates that a business case be built in support of strategic initiatives of which the UK government clearly sees sustainability as an example for all businesses. Unfortunately there is, as yet, no proven business case that sustainability contributes to the achievement of these objectives.

Anecdotally, there is a growing body of evidence to suggest that there are benefits to business of embracing sustainability. For example Dow Chemical has placed CSR at the heart of its business, seeking excellence in all three components of sustainability.

The commercial arguments in favour are becoming increasingly persuasive; however to date, the government has shown little inclination to demonstrate that embracing CSR reduces risks or enhances earnings or potentially both. Instead it has preferred a 'stick' rather than 'carrot' approach, albeit supported by initiatives such as the Advisory Committee on Business and the Environment (ACBE) which is industry-led and whose report 'Value, growth, success – how sustainable is your business?' assists with the identification and prioritisation of CSR issues within companies.

The commercial arguments in favour are becoming increasingly persuasive

Tangible evidence of real benefits at least five years away

Fortunately there are signs that government is starting to realise that there are benefits in building a more robust business case that does more than present a list of possible benefits and that provides tangible evidence that there are real benefits to earnings or market values.

The downside is that this is still some distance away as most thinkers believe that this will take upwards of five years to demonstrate, even once such a project is under way.

In the meantime, the 'socially responsible investment' (SRI) movement has created new opportunities in the financial sector, whereby investments are selected on an ethical basis linked to sustainable development (eg tobacco, arms and nuclear power industries are screened out from investment portfolios together with other companies which have failed to engage positively in the debate), shows some signs of generating superior returns, and in any case allocates capital positively to those businesses deemed to be responsible albeit that total amounts invested in the UK represent less than 5% of total investments. The Dow Jones sustainability index, and the UK FTSE4Good, track performance.

However despite stakeholder and government pressure, not everybody subscribes to the business benefits of embracing sustainability in business. The most frequently cited argument is that business is about business, not about implementing government policy or saving the planet.

On the face of it, this argument is hard to dispute; however, that is to ignore the effects of globalisation and the changing attitudes of society which have altered the environment within which businesses now operate. These include:

- workers demanding a fair wage, or, in the case of southern Africa healthcare, cheap drugs to minimise the effects of the AIDS epidemic which has substantially reduced productivity and the labour pool;
- local communities withdrawing a company's 'moral' licence to operate, such as in relation to the planting of genetically modified crops or the siting of mobile phone masts;
- customers no longer buying products or services due to a dislike of the ethical stance of a company, as has been the case at differing times with some oil companies' refusal to engage in controlling emissions, various banks' attitudes in South Africa, and the alleged use of child labour in manufacturing in the third world, affecting US clothes companies;
- suppliers such as those in the developing world demanding a fair price for their products – such as coffee – despite their limited bargaining power; or
- campaigners providing adverse publicity and tarnishing company reputations and brands.

And, while these may not be directly applicable to many businesses, their affect is regularly felt further down the supply chain, with companies insisting that their suppliers adopt sustainable practices, eg B&Q's stance on its imported timber products.

This body of societal change is being underpinned by the growing body of legislation. All of these situations create new risks.

Risk management

Most companies, large or small, consider risk management to be a core competence together with the related activities of strategic management and business planning. CSR is not always thought of in this way and when it is, it is rarely recognised that CSR represents a group of new risks to be managed in an area where smaller businesses in particular often have neither the knowledge nor the skills to manage them effectively – with the result that CSR issues are either managed sub-optimally or not at all.

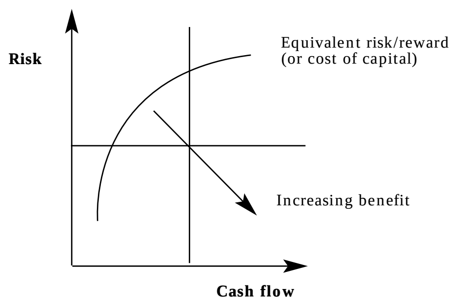
Because of this the area of CSR and risk management bears further consideration and in particular the role that capital markets play. The markets provide the cash required to keep businesses functioning and play a continuing, significant role for business. Indeed, the more forward-thinking banks and insurance businesses are already reflecting environmental risks in their decisions to advance credit or write policies.

However, only a limited amount of capital is available in the market, particularly during times of recession.

The purpose of the markets is to allocate capital to businesses based upon their perceived ability to manage risk (including the volatility and absolute level of rewards, as measured by cash flows). The lower a risk that a company represents to investors, the lower the returns they require from their investment. Or in terms of the cost of servicing capital, the cheaper this becomes. The implications of this are that better risk managers should:

- pay less interest;
- pay lower dividends;
- be able to take on projects of benefit to shareholders which less able competitors cannot; and
- enjoy a higher share price.

Figure 4 Risk and reward



All these give rise to a lower 'cost of capital'. Consequently risk management is an issue linked closely to competitive advantage. This also emphasises the importance of a competent management team to investors. If sustainability is recognised as constituting a set of risks, then it becomes obvious that effective management of these risks should give rise to competitive advantage, as illustrated in Figure 4 (above). And of course, any risk also represents an additional opportunity that can be exploited – the very way that most businesses are able to generate superior earnings.

> Effective management of sustainabilty risks should give rise to competitive advantage

The status of corporate social responsibility

So who is right? So far we have seen that whilst CSR may be complex to understand, it can be adequately dealt with like any other business risk, albeit that the terminology, issues and solutions may not be well understood. Whilst the business case remains unproven, there is strong, albeit anecdotal evidence of its benefits.

The precautionary principle which is at the heart of CSR gives some guidance on how business should approach it. This was developed in response to uncertainties over the future impacts of environmental pollution and has come to underlie much of the CSR debate. The principle recommends that where the future outcomes of current action cannot be accurately forecast, it should be assumed that the undesired outcome

> CSR takes the undesired outcome as a probable outcome and proceeds accordingly

becomes a probable outcome and to proceed accordingly.

This is both driving the attitudes of campaign groups and also providing a strategy for business to apply when deciding what action they should take to CSR.

New regulation has emerged in Europe and the UK

This thinking has driven much of the new regulation to emerge in Europe and the UK. A full list and critique of government actions in this area is beyond the scope of this article, however suffice to say that they are many and various and just some examples are given here:

- the Department of Environment, Food and Rural Affairs' policy of 'naming and shaming' listed and large businesses which have not published an environmental report; and
- ministers making high profile statements and commitments related to the UK's actions in connection with the Kyoto protocol, establishment of the Carbon Trust and the Emissions Trading Scheme.

Perhaps the most far reaching piece of legislation expected to affect chief executive officers (CEOs) is the Company Law Review where government is currently in the process of bringing forward legislation in response to the recommendations of an all party review. Whilst many of the recommendations were concerned with procedural and structural aspects of the law, it proposes a number of changes to the operating and financial review (OFR) for listed and large private companies, specifically including increased disclosures of:

- the company's business objectives, strategy and principal drivers of performance;
- dynamics of the business, including health and safety;
- environmental costs and liabilities;
- intellectual capital, brands, research and development, and training;
- if material, details of key relationships with employees, customers, suppliers and others on which its success depends; and
- if material, policies and performance on environmental, community, social, ethical and reputational issues, including compliance with relevant law and regulations.

Numerous groups and organisations with specific sustainability objectives exist to provide guidance

Such information goes beyond the financial information traditionally reported, enhancing the understanding of risks and making new information available to stakeholders.

Other businesses whilst not required to comply with these disclosures, may choose to follow suit to comply with best practice. Whilst inevitably there will be a tendency to report with a bias towards good news there are a number of factors which mitigate against this to promote transparency. These include a requirement for the company's auditors to opine on the process adopted for selecting information, the lack of credibility – amongst a wider stakeholder audience – of a report thought to have excessive bias, and the opportunity to add value through more effective communication of key risks and value drivers.

This emphasises the importance of engaging with stakeholders (including the capital markets) to ensure that their and the company's objectives in communicating performance are met.

Other regulations either in force or pending include the following:

- *End of Life Vehicle Directive (ELVD)* – placing the burden of the cost of recycling vehicles on the manufacturer with the aim of encouraging eco-design;
- *Waste Electrical and Electronic Equipment Directive* – affecting electronic equipment, this has similar application and objectives to ELVD. (Both directives create new business costs and the need for proactive solutions.); and
- *Packaging Waste Regulations* – controlling packaging with the objective of minimising waste.

These are applicable to all companies either by direct regulation or by requiring compliance down the supply chain from retailer, through assembler, to supplier.

In support of its objectives, the government has set up numerous organisations, often in conjunction with the private sector such as Project ACORN (to assist SMEs in implementing environmental management systems), the SIGMA project (developing practical tools for implementing sustainability), and the Waste and Resources Action Programme. Further details can be found at www.dti.gov.uk/sustainability/.

Numerous other groups and organisations with specific sustainability objectives also exist to provide guidance, and the relationship with these groups needs to be managed.

The situation in the US is generally less advanced, particularly with the US government's decision not to participate in the Kyoto protocol. Despite this, there is still a substantial body of US regulation on CSR and with many US businesses operating on a global scale these have had to embrace CSR. Such companies include The Gap and MacDonalds. Whilst less enthusiastic than many European businesses, this serves to illustrate the reach of CSR and many believe that it is only a matter of time before American businesses come to lead in this area as in many other aspects of business.

First actions

As we have seen, CSR is wide-ranging, complex and provides a number of new challenges to business, not the least of which is engaging and communicating with a vocal and sceptical audience. This is exacerbated by the language of sustainability itself causing confusion. However, whatever action business takes, it must be based on best business practice.

The other key point to note is that this new world has re-written the rule book. Companies cannot deal with the wider stakeholder audience in the way that they have been used to dealing with shareholders in the past if they are to retain credibility and not antagonise vocal protestors.

Some larger businesses have already taken action on CSR, but what action should small or medium enterprises take?

Whilst the existing trend of publishing CSR reports is the province of larger companies, SMEs are not immune. Actions taken by larger companies are pushed down the supply chain. The ELVD is a case in point where global vehicle assemblers who are committed to CSR push their obligations down the supply chain, requiring all suppliers to embrace these policies. Failure to comply will limit opportunities for new work and even threaten the long term survival of the supplier.

Not surprisingly, there is no simple solution, but my five point action plan is set out below:

- *build knowledge of CSR issues* – knowledge needs to be acquired and disseminated across the business and particularly at board level. Often this involves the recruitment of a sustainability professional. Whilst capable of providing detailed technical solutions, they tend to specialise only in a single silo rather than across the broad CSR spectrum and often lack the wider business skills necessary to provide a full commercial solution. This narrow approach may prove expensive if it leads to a limited solution and consequently the use of external advisers may prove cost effective during the early stages of embracing CSR;
- *take responsibility* – one director should be appointed with responsibility for CSR. This is most likely to be either the CFO or operations director, depending on the business. The operations director brings knowledge of the actual activities of the business, however the CFO's responsibility for business planning and in reporting provides a number of advantages in providing comprehensive solutions founded on existing core business processes;
- *complete the business planning cycle* – identify business risks and opportunities based on CSR knowledge, integrating these with the risks identified in other parts of the business. Complete the business planning cycle and develop an action plan. In respect of CSR, this should initially be a high level plan as up to this point there will have been little or no engagement with key stakeholders;
- *engage* – having identified the key risks and proposed actions, stakeholders can be engaged. This process is two-fold. Firstly it will confirm the board's views on the impacts of CSR on their business. Secondly it will help identify the validity of the intended solutions. This step is risky as stakeholders often have competing interests and can easily be provoked by business. Consequently it is recommended that specialist advice be sought at this stage, before engaging; and
- *refine and prioritise* – the board's own research and the views of stakeholders must be reviewed and the plan revised, both to refine and, if necessary, reject the initial solutions proposed but also to set realistic performance measures to monitor progress. At this stage a decision can also be taken on the strategy for future communications and engagement with stakeholders and on whether a CSR report should be produced following the trend set by larger businesses. This is also the stage at which a CSR function can be built to develop and implement specific management systems, provide management

Whatever action a company takes, in response to CSR, it must be based on best business practice

A five point CSR action plan can be implemented information, manage a stakeholder engagement programme and continue development of the knowledge base.

Conclusions

Sustainability is complex and clouded by jargon that is likely to be unfamiliar to many business managers. However despite this, it succumbs to traditional business management techniques. Whilst the benefits of embracing CSR have yet to be proven, there is a growing body of evidence demonstrating that embracing CSR can bring real business benefits.

Businesses that ignore CSR take a significant risk

I would argue that businesses do need to decide on and implement strategies on CSR – perhaps more so during times of recession, due to the ability of CSR to reduce costs, enhance customer loyalty and provide new markets.

Of course not everybody agrees with this, but the gainsayers are becoming an ever dwindling minority as awareness of the fundamental change in society has grown.

Being an early adopter is a strategy that has proved particularly effective for companies such as BP, but being a follower and rapidly learning from those early adopters can also be effective particularly for SMEs. Whilst companies may decide, having completed a sound business analysis, that the impacts of CSR on their business are minimal and hence opt to take no action, those businesses that ignore it altogether take a significant risk. MQ

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- Sustainability-Reports.com – to download a range of environmental, social, CSR and sustainability, visit: www.sustainability-reports.com

Dealing with the demand for transparency

The emergence of 'environmental, health and safety', 'sustainability' and 'corporate social responsibility' reports, attests to the increasing demand for transparency in corporate reporting. **Alun Bowen**, a senior partner with KPMG and head of its Global Sustainability Services™ practice, describes the drivers of such reporting, and the available tools and methodologies for its implementation.

"A corporation's social responsibility is to make a profit" – Milton Friedman's statement highlights the issue at the heart of the debate on corporate social responsibility.

In the era of globalisation and widespread access to real-time information, together with ever increasing demands for transparency and good governance; corporations have found, to their cost, that business cannot stand apart from the society in which it operates.

The drivers for greater reporting

A reflection of the increasing demand for corporate transparency is the emergence of the 'environmental, health and safety' report, the 'sustainability' report and the 'corporate social responsibility' report. In 2002 almost half of the top 250 Global Fortune companies issued such a report compared with just over a third in 1999 (*Source: KPMG Global Sustainability Services™ survey of Corporate Sustainability Reporting 2002*). A similar increase in reporting has taken place among the FTSE 100 companies.

As well as producing corporate reports there are a number of other measurements and benchmarks produced by external organisations that demonstrate the increasing importance of non-financial reporting in the overall framework within which company performance is measured.

Examples of these measurements/benchmarks include:

- *stock exchange indices/investor related* –
  – the FTSE4Good index; and
  – the Dow Jones sustainability index;
- *rankings or initiatives from independent bodies* –
  – the Business in the Community Corporate Social Responsibility Index;
  – the Business in the Environment Index; and
  – the London Benchmarking Group;
- *socially responsible investment (SRI) analysts* – a large number of institutions operate so-called 'ethical funds' and so there is an analyst community that requires companies to account for their ethical, social and environmental performance. Indeed, mainstream analysts are also now paying far more attention to these performance issues.

In addition, there is a significant amount of 'soft regulation', which also drives the tendency to report. Examples of this genre include:

- the Association of British Insurers' (ABI's) Guidelines on Corporate Social Responsibility;
- the EU green paper on Corporate Social Responsibility;
- the UN Global Compact;
- the OECD Guidelines for multinational enterprises;
- the Ethical Trading Initiative; and
- the PIRC guidelines.

As well as companies having stand-alone reports, companies are increasingly including the material elements of their ethical and social, environmental and economic performance in annual reports. This is often supplemented with further information and data on their web sites.

This is a trend that will be accelerated if the

Business cannot stand apart from the society in which it operates

Company reports are increasingly including elements of ethical, social, environmental and economic performance current draft bill arising from the UK Company Law Review becomes an act. Companies will be required to discuss their environmental, ethical and social risks in the operating and financial review (OFR). Indeed, the French have gone a stage further and made social and environmental reporting mandatory for all publicly quoted companies.

There is a also a continuing debate concerning whether these annual reports are intended for the shareholders (both institutions and individuals), the users of annual reports (ie analysts, commentators etc) or 'stakeholders' (ranging from employees to customers). It is interesting to contrast the UK position with that of some other European countries, where the annual report, by law, is effectively addressed to the public at large.

The evolution of reporting

Triple bottom line is the concept of maximising long-term financial returns whilst optimising social, environmental and economic impacts

Non-financial reporting has evolved in a different way from that of the production of financial statements. In the majority of cases the drive for reporting has effectively led to the establishment or significant enhancement of underlying reporting systems. This is often due to the fact that the information required for producing such reports has only recently become a key performance indicator, or more commonly such information has not reached a high enough level in the organisation.

Non-financial reporting has also involved departments such as investor relations, human resources, public relations and environmental departments with professionals from disciplines that historically have not been involved in producing public reports or indeed collaborating closely to produce such reports. These are challenges that companies have had to try to overcome to produce coherent reports.

The Global Reporting Initiative provides a detailed checklist

In addition, since reporting non-financial information, as an industry, only rose to prominence in the 1990s, it has been a pioneering activity for all those involved in it. Until relatively recently, there was a complete absence of tools or standards to assist in the reporting process. This has led to an accusation from certain commentators that companies have been selective in the issues they discuss and report, so called 'greenwash'. Tools and methodologies are now emerging which should add greater rigour to the reporting process and produce more balanced reports.

Tools and methodologies

The Global Reporting Initiative – a detailed checklist

The emergence of the concept of the 'triple bottom line' (which involves maximising the long-term financial return for an organisation whilst optimising the social, environmental and economic impacts) led to the Global Reporting Initiative, which was established with funding from the United Nations. This is effectively a detailed checklist for environmental, social and economic reporting. The environmental information that is required to be reported is reasonably comprehensive, as it relates to probably the most mature element of the 'triple bottom line'. Some progress has been made on social information. Economic information, which involves considerably more than mere financial data, however, is relatively underdeveloped.

The Global Reporting Initiative has its own issues, quite apart from the fact that it requires further work on social and economic data and is designed on a 'one size fits all' basis, though supplements by industry sector are planned.

The principal issue is that it is effectively a 'cookbook', giving rise to some echoes of the principles versus rules debate in financial accounting. Certainly, as a tool for informing the preparer of a report as to what a comprehensive report might contain, it is effectively 'the only show in town'.

In contrast to the evolution of financial accounting, the Global Reporting Initiative is a genuinely global initiative and has a buy-in that transcends national boundaries, bridges US/European differences and hence has the potential to provide some genuine comparability between companies. One of the difficulties, however, with further rapid evolution of the Global Reporting Initiative is that it is a representative body which includes representatives from non-governmental organisations (NGOs), labour representatives, business, academia and government. Whilst inclusiveness increases buy-in, it does mean that all decisions tend to be broad compromises and the formulation process slow.

AA1000

AA1000, produced by The Institute of Social and Ethical AccountAbility is a standard designed to improve accountability and performance through stakeholder engagement. It is an approach, which provides some rigour around three core principles:

- *completeness* – completeness, in this context, takes a different form to that adopted in financial accounting as it requires the use of stakeholder engagement. A practice increasingly used by companies, to identify the issues that NGOs, communities and other stakeholders in the business – such as employees, customers, suppliers and communities – have with the organisation. This information is used to drive the material issues that are addressed in the non-financial report;
- *materiality* – materiality is a more familiar concept although it tends to have a broader meaning in relation to what is material to the *users* of the reported information; and
- *responsiveness* – responsiveness demonstrates the extent that the organisation has taken into account and responded to the information provided by the stakeholder engagement and dialogue.

The above principles, whilst having some similarity to their equivalent financial accounting concepts, provide a framework for the preparer that can readily be used in conjunction with the Global Reporting Initiative.

In addition, the AA1000 assurance standard (AA1000AS) that provides guidance to preparers and assurance providers on the considerations to be made in preparing a report and for the assurance provider in issuing its report.

OFR Working Group
The recently issued consultation document by the OFR Working Group, established by the UK government as part of the Company Law Review, suggests some broad principles and provides practical guidance on how directors of companies can assess whether an item, such as the company's environmental impact, is material to their company and hence whether it should be included in its OFR.

The consultation document discusses three essential components:

- the concept of materiality itself;
- the principles to be applied in arriving at a judgement on materiality; and
- the process directors will go through in deciding what should be included in their OFR.

The authors of the consultation document take a broad view of the audience for an OFR. They recognise that the views of significant stakeholders ultimately affect members and should be considered in assessing what to report. Although written in the context of the OFR, the guidance will, when the consultation document is finalised, be important for all non-financial reporting.

Important case studies, pointers and guidelines for companies

There are a number of important case studies, initiatives and sets of guidelines which would be helpful for companies attempting to improve their CSR reporting:

Global reporting – Shell's experience
A report widely regarded as having 'paved the way' in non-financial reporting is the 'Shell, People, Planet and Profit' report (see references, page 16), it remains an excellent example of a comprehensive stand-alone sustainability report. The report arose from the issues in the mid 1990s with the Brent Spar oil rig and the Ogoni people in the oil fields of Nigeria.

Reporting on corporate social responsibility and environmental and social performance is here to stay

Sustainable development reporting – guidelines
'Sustainable development reporting: striking the balance' issued by the World Business Council for Sustainable Development covers:

- a step-by-step guide to help improve or develop reports;
- recommendations on how companies can bridge the information needs of the financial community and the reporting practices of companies; and
- an insight into the debate on the standardisation of reporting formats touched on in this article.

UK reporting awards
The Association of Chartered Certified Accountants has for the last 10 years provided awards for high quality sustainability reports. The report of the judges for the ACCA UK awards for sustainability reporting 2002 gives useful insights and recommendations for improvement for report preparers.

It also makes suggestions for reports that are purely web-based. The awards also cover small and medium sized companies, thus making the subject more accessible for the overwhelming majority of companies.

Smaller companies will also come under scrutiny but can benefit from speedier and less complex implementation

The experiences of companies preparing reports – 'Walking the talk'
'Walking the talk', a book authored by Chad Holliday of Dupont, Sir Philip Watts of Shell and Stephan Schmidheiny of Anova, gives many examples of companies that have grappled with the issues of sustainable development in particular and the impact that these issues have had on their reporting.

SustainAbility
John Elkington, co-founder of the management consultancy and think-tank SustainAbility coined the phrase 'triple bottom line'. For further details on SustainAbility, see Appendix A, page 32 and Bibliography, page 33.

Summary

Reporting on corporate social responsibility, sustainable development and environmental and social performance is here to stay. The drivers are well established and increasing in force. The direction is clear.

Non-financial reporting has to some extent a lead on financial reporting, as there is already global recognition of the issues and an embryonic global standard. The challenge will be to generate global consistency against the natural desire of certain governments to legislate. As usual it will be a challenge for the UK to continue to win the debate for a 'principles based' approach. Voluntary disclosure has clearly fostered great innovation by companies in their reporting in the last few years.

During the last 10 years, sustainability reporting has, in the main, been the province of the large global and national companies, especially those companies with a significant environmental footprint or relationships with the developing world.

It is now clear that the environmental, social and economic impact of smaller companies is under scrutiny. These companies have the benefit of the experience of the larger companies who are happy to share their knowledge with them and indeed, encourage reporting, if these smaller companies form part of their supply chain. Smaller companies also have the advantage that non-financial reporting together with the associated management systems can be implemented more speedily and in a less complex fashion than for the global giants. This can be a source of genuine competitive advantage in terms of communication with their employees, customers and other stakeholders. MQ

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- The operating and financial review working group consultation document is available at: www.dti.gov.uk

Getting the CSR message to stakeholders

Effective communication lies at the heart of understanding stakeholder expectations and informing key stakeholders and consumers of businesses' responses to shifting expectations, argues **Gavin Grant**, deputy chairman of public relations firm Burson-Marsteller. Hence communications are a core component in developing a successful CSR strategy.

'One of the most prominent misconceptions about public relations people is that they try to create a climate that will enable corporations to do whatever they damn well please. These views, of course, are quite wrong. One of the prime functions of the professional public relations practitioner is to act as mediator between the corporation and society.'

Harold Burson, 20th March 1973.

CSR – the issues are here to stay

Ten years ago few had heard of corporate social responsibility (CSR), let alone thought about what it might mean for corporate reputations and the way companies do business. Despite the fact that no one was using the phrase, though, companies were beginning to have to address environmental, social and ethical issues. While it is quite likely that the acronym 'CSR' will not last, the issues of climate change, child labour, diminishing natural resources, lack of access to clean water, and respect for cultural, racial and gender diversity are all here to stay.

The evidence for my assertion is to be found not only in important discussions at Davos (2000) but also in changing consumer and key opinion former attitudes and expectations. The Environics Corporate Social Responsibility Monitor, which documents changing public views of corporate behaviour, has recorded that in 2002 two thirds of people across the world believed that their actions as consumers could influence how responsibly a company behaves. Indeed, the monitor reported that 58% of Americans said they had 'punished' a company based on its corporate behaviour – a 15 percentage-point rise on 2001 figures. And the pressure to act responsibly came not only from consumers. In G7 countries 60% of shareholders agreed that they would sell their shares in a company if it behaved irresponsibly, even if the share earnings were significant. Investors in Australia, Great Britain and the US were most inclined to sell their shares in a socially irresponsible company.

Ten years ago few had heard of corporate social responsibility

In a democracy, political and regulatory policy shifts reflect trends in society. Europe is in the vanguard of these shifts. In recent months there have been several instances of CSR influencing national and international politics:

- the recent EU Communication on CSR ('Corporate social responsibility: the future contribution to sustainable development');
- new legislation requiring French listed companies to report against key environmental and social indicators; and
- the UK government's suggestion in the Company Law Review that Britain's largest companies should report on all non-financial impacts which are 'material' to their business.

Companies which refuse to address the issues CSR covers will find themselves behind the legislators and ultimately, perhaps, on the wrong side of the law. And as society becomes more litigious, this is not a good place for companies to be.

Corporate social responsibility is not a fad because the issues which fall under its remit

Corporate social responsibility is not a fad because the issues which fall under its remit are not temporary are not temporary. The reasons for the rise of CSR are discussed in more detail elsewhere in this document, but among the key drivers are:

- instant global news 24/7 (the Iraq conflict being just the latest and most dramatic demonstration);
- the rise of the global brand;
- increasing awareness of poor working conditions in supply chains and environmental impacts of business;
- the growing campaigning sophistication of non-governmental organisations (NGOs);
- a massive increase in international travel; and
- the expansion of the internet.

Communication in its broadest sense is integral to all these changes and corporate communications strategy must change if companies are to keep up with society's expectations.

CSR is changing the way companies are building and protecting their reputations

This article examines how CSR is changing the way companies are building and protecting their reputations. In it, I explore the role that communication has in managing corporate reputation and brand identity in the face of new opportunities and threats. More, though, I argue that effective communication lies at the heart of understanding stakeholder expectations and effectively informing key stakeholders and consumers of businesses' responses to shifting expectations. Consequently communications are therefore a core component in developing a successful CSR strategy. In this context, the role of public relations practitioners as mediators and interpreters between companies and society is at least as important today as when Harold Burson made that shrewd observation in 1973.

The global brand

Large companies need strong identities to hold them together, especially if they are global and interact with consumers and key stakeholders. The brand has been one of the strengths of corporate globalisation. It has been particularly important in mobilising consumer interest and loyalty, by associating a Coke or a pair of Nike trainers, for instance, with values above and beyond the consumer durable. Whatever else the global brand does, it provides a clear conceptual link between the product, the consumer's sense of well-being and the wider impact of the company on the world.

A global company has global supply chains. Its operations can touch people in countries as far apart as America and Burma. Even 20 years ago people knew very little about how or where the products they bought were manufactured. Now, there is a desire to look behind the label. Workers from developing countries are linking up with organisations in Europe and North America to publicise their working conditions. Environmental, human rights and development groups are doing the same. The internet is a fundamental instrument driving this change. Consumers and their self-appointed champions have far greater access to information on products, corporations, political regimes and the relationships between them. If a company is seen to be exploiting cheap labour or the environment in order to fuel the short-term demands of its shareholders, it is in serious danger of being the victim of scathing attacks from a disgruntled public.

The brand can make a company strong, but it can also make it a target. One of the tactics campaigners use is to single out individual companies with major brands in order to drive change across a whole sector. The company with the highest profile is an obvious point of attack, as Naomi Klein highlighted in her hugely influential book, 'No logo'. Because the brand is big and well recognised, activists can hijack it to discredit the company it has come to symbolise. 'Adbusting' is a quick, cheap and very effective way of undermining a lot of expensive and carefully worked-out brand development. A notable example is the clothing retailer, Gap. Campaigners accused the company of not doing enough to avoid sweatshop labour, despite the company working hard to eradicate the practice in its supply chain. Graffiti artists have targeted Gap posters, drawing black circles over the eyes of the models to give them a skull-like appearance.

Because brands embody ideals and values, socially responsive companies can use them to differentiate themselves

However, because brands embody ideals and values, socially and environmentally responsible companies can use them to differentiate themselves in the market. The Body Shop recognised that consumers were concerned about the way cosmetic products were being produced and responded by offering a viable alternative. That Ben and Jerry's is now a Unilever-owned ice cream brand is another avant-garde example. These brands purposefully associated responsible business practices and 'ethical' products which in turn drove sales and commercial success. A more common use of branding has been to associate a single product (rather than a whole company) with environmental or social goods. These values feed into marketing strategies for fuel-efficient cars, 'eco' detergents and organic, unbleached cotton clothes.

'CSR branding' has also helped drive the success of the organic movement, which has been masterful at promoting the 'healthy living, healthy environment' message. As this last example emphasises, at its heart branding is not limited to logo and marketing, but about the ability of a product, company or industry to resonate with the public's underlying values.

A new CSR communication paradigm – 'listen, learn, engage'

Tony Juniper, vice chair of Friends of the Earth International, has said "…the job of campaigners is to create change, not shifts in corporate public relations… Changing practice through real and substantive actions, to deal with critics enjoying strong public support, is the only way to diminish risk." To be taken seriously, companies must be able to show that their CSR strategy is more than good PR. Companies can get themselves into real trouble by failing to understand the dynamics of CSR communication, particularly if they start making inflated claims which cannot be substantiated. But there are other pitfalls too. Businesses responding to consumer opinions on genetically modified (GM) ingredients in Europe but not operating the same policy elsewhere get caught out in the internet global village, as Nestlé found out.

Communicating CSR is fraught with difficulty, but effective corporate strategies cannot be developed or implemented without it. As the opening quotation affirms, good public relations has always been about acting as a mediator and interpreter between a company and society. What has changed since 1973 is the speed and penetration of the media in our society, coupled with changing expectations of companies' accountabilities. Public relations professionals cannot get away with half-truths in the hope of allowing corporations 'to do whatever they damn well please'. There are too many campaigning groups out there ready to sniff out corporate 'greenwash'. As society changes, so must the way companies engage with the public.

In the past, communication tended to be basically one-way, from the company to the public, the 'decide, announce, defend' paradigm of corporate communication. There are companies still using this model. The problem with this traditional method of mediation, though, is that it alienates the company from the public if the message jars with public opinion. Shell found that out to its cost in the mid-1990s over the Brent Spar incident and the Ogoni crisis in Nigeria.

> Communicating CSR is fraught with difficulty, but effective corporate strategies cannot be developed or implemented without it

There is a new paradigm emerging, therefore, 'listen, learn, engage' – an approach since adopted by Shell following the excellent example of BP Amoco. There are two points worth highlighting. First, companies must align what they actually do with what society expects them to be doing – and this requires listening and learning from key stakeholders. Second, the communication strategy is as much about tone as message.

Find out what is expected of the company

It is very difficult for someone on the inside of a corporation to know what someone on the outside thinks of it, especially if the stakeholder falls outside the traditional inner circle list (customers, shareholders, staff and suppliers). The first stage of any CSR strategy, therefore, should be formal and informal conversations with the people who have a stake in a company's operations. As Alan Knight, head of social responsibility at Kingfisher, puts it, if stakeholders aren't thought of as potential allies, they can be thought of as 'anyone who can mess up our business'. This is why understanding what the wider group thinks is so fundamental to a successful CSR strategy – if it is pitched wrongly, the consequences can be serious.

Listening and learning allows a company to identify gaps in its activities. It might be that there is a performance gap between what stakeholders expect and what a company is delivering. If the gap cannot be closed immediately, the company will need to explain to stakeholders how it is addressing their concerns and why the pace of change will not be as fast as they had expected.

> Listening and learning allows a company to identify gaps in its activities

In the early 1990s, B&Q came under intense criticism for selling timber from poorly managed tropical forests. Rather than adopting bunker mentality tactics, B&Q worked with NGOs and timber industry representatives to find a solution to the problem of deforestation. Good communication between the company and its stakeholders meant the campaigners could share the challenges facing the retailer and the industry in moving to more sustainable forest management. This allowed B&Q to show its commitment, while reducing the campaigners' criticism. The same enlightened approach was adopted by Unilever on fish stocks in its partnership with WWF to create the Marine Stewardship Council.

Communication has a very real role to play in CSR

Stakeholder engagement can also identify another gap, if a company is acting better than it is being given credit for. Again, effective dialogue between a company and its stakeholders can help to correct this misunderstanding. If this is not done in time, companies can even find themselves being criticised for things they have not done. Campaigning groups have attacked De Beers, for instance, for endorsing the Botswanan government's policy decision on the bushmen from the Kalahari Desert. The connection is not only rejected by the company, but also by respected local NGOs.

The key to successful stakeholder engagement is showing an understanding of the problems and a willingness to talk about solutions. By listening to stakeholders' points of view, other people are more likely to listen to a company's own opinion. More simply, if a company shows respect to others, it will earn respect.

References and further reading

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Moving forward

There is a further step to be taken after stakeholder engagement – action. A company which engages with stakeholders must be ready to react to the views it hears, not least because such dialogue will raise expectations among stakeholders. Ultimately, responsibility can be communicated only through action. There are no brownie points for publishing a CSR report if all it does is gloss over the harsh reality. Good CSR strategies align company practice with core values, not just in corporate literature, but in the activities of the company itself.

One of the tools used to assess a company's public image is research into the reputation of that company's CEO. This research highlights the damage that can be done from failing to match the values which the CEO espouses with the company's actual behaviour. Conversely, the 2002 Environics survey reported that, in the UK, 84% of people agreed that their respect for a company greatly increases when the head of the company speaks out in favour of being more responsible to the broader society.

When John Brown, group chief executive of BP, publicly recognised his company's contribution to climate change in 1997 and affirmed his commitment to investing in alternative forms of energy production, the company received broad support from NGOs and other stakeholders. This one speech has not given BP a protective shield against antagonistic campaigners or criticism, but it did show that at the highest levels of the company, BP was conscious of, aligned with, and responding to public values.

Conclusion

Communication has a very real role to play in CSR. Public relations practitioners should act as mediators between company and stakeholder, not only as a mouthpiece in one-way communication, but also as an earpiece, listening to and learning about stakeholders' concerns and needs, and shifting expectations. Effective CSR strategies begin with dialogue, communicating the agenda deep into the organisation and far beyond: actions speak louder than words. Communication doesn't simply run alongside any of these processes, but deep within them. MQ

Environmental accounting – tracking progress

How are leading companies using environmental accounting tools and methodologies to add value and manage risk? **Rupert Howes**, director of the sustainable economy programme (SEP) for the UK-based development charity Forum for the Future, assesses how companies are using them to respond to the growing demand for disclosure of environmentally related financial data.

Last September the Chartered Institute of Management Accountants (CIMA) launched a publication, 'Environmental accounting: an introduction and practical guide', to an invited audience of finance directors and other senior financial personnel from the FTSE100, professional accounting bodies and beyond. The publication, written by the sustainable development think tank Forum for the Future, provides an explanation of what environmental accounting is all about and detailed step by step guidance on how organisations can begin the task of producing their own external cost accounts. These accounts attempt to estimate an organisation's 'environmentally sustainable' or adjusted profits (see glossary on page 36 for details) for the accounting period under review.

Several leading companies are already engaged in environmental accounting and using the methodologies outlined in the CIMA publication. These include AWG (formally Anglian Water), the Co-operative Insurance Service (CIS), Wessex Water, Bulmers – the Herefordshire cider manufacturer, Carillion – the construction company, Marks & Spencer, and Interface Europe.

Some are also reporting the results – for the second year running Wessex Water has published full external cost accounts, alongside its conventional financial statements, within the main annual report and accounts[1]. Similarly, and for the fourth year running, AWG has shown in its 2002 Sustainability Report, the impact on reported profits of its sustainability cost estimate – ie the cost to avoid or restore the damage resulting from the company's most significant external environmental impacts over a given accounting period. Other companies – such as Jaguar Cars, ICI and UPM Kymmene, the world's largest manufacturer of printing papers – are also exploring the potential of applying external cost accounting to their activities and operations.

What is environmental accounting?

Environmental accounting involves the generation, analysis and use of monetarised environmentally related information to improve corporate environmental and economic performance. Whilst this definition may seem a little dull, environmental accounting is not. It is all about making the link between environmental and financial performance more visible, getting 'environmental sustainability' embedded within an organisation's culture and operations and providing decision makers with the sort of information that can help them to reduce costs and business risk and to add value.

> Environmental accounting is about making the link between environmental and financial performance more visible

The methodology outlined in the CIMA guide focuses on external environmental cost accounting – accounting for and internalising environmental externalities. It aims to calculate the 'sustainability cost' of a company – the cost that an organisation would need to spend to restore or avoid the most significant environmental damage caused by its activities and operations over an accounting period.

The four main stages involved in the development of a set of external cost accounts are as follows:

- the identification of the most signifi-

Wessex Water Services external environmental cost accounts for the year to 31 March 2001

Emissions/impacts	Emissions (Tonnes)	Unit cost £ (where relevant)		UK pounds £'000's *to deliver the relevant sustainability targets*
IMPACTS TO AIR				
Direct energy		Reduction target (tonnes) (Sustainability gap)	Avoidance and restoration costs	
Electricity consumption 195.1 million kWh				
CO_2	86,325	51,741	–	
NOx	234	140	–	
SO_2	488	293	–	
Total (avoidance)				1,950
Natural gas consumption 11.07 million kWhs (CO_2 only)	2,103	1,262	6	8
Diesel oil – 18.91 million litres CO_2 only	4,728	2.837	6	17
Production relation emissions	91,140	54,684	6	328
Methane (CH_1) emissions from waste water treatment	*(expressed as CO_2 equivalent)*			
Transport				
Company cars (petrol and diesel) 13.2 million kms				
CO_2	403	241	6	2
NOx, HCs and particles	1	<1	14,000	8
Commercial vehicles (petrol and diesel) 13.2 million kms				
CO_2	3,918	2,381	6	14
NOx, HCs and particles	30.5	17	7,200-14,000	323
Commuting and private car use 8.3 million kms				
CO_2	2,294	1,377	6	9
NOx, HCs and PM	16	8	7,200-14,000	100
Contractors 11.4 million kms				
CO_2	2,500	1,500	6	10
NOx, HCs and PM	37	17	7,200-14,000	282
IMPACTS TO LAND				
Contaminated land (restoration of sacrificial and dedicated land)	–	–	6,000-9,000	120
IMPACTS TO WATER				
Abstraction at vulnerable sites – provision of alternative supplies	–	–	–	5,170
Total sustainability cost				8,341
Profit after tax per the financial accounts				72,000
Environmentally sustainable/adjusted profit				63,659

cant/major environmental impacts resulting from the company's activities and operations;

- the estimation/determination of what a sustainable level of emissions/impacts may be – ie the determination of relevant sustainability targets or the 'sustainability gap';
- the valuation of those impacts – making use of market-based avoidance and restoration costs; and
- the development of a set of environmental accounts incorporating these values and subsequent estimation of the company's sustainability cost and 'environmentally sustainable profits'.

This approach, within the defined boundaries of the accounting framework, links monetarised corporate environmental data to the company's financial accounts in order to arrive at an environmentally adjusted profit level. Wessex Water's accounts for the period to 31 March 2001 are shown left. The headings used in the external environmental cost accounts reflect recommendations on sustainability reporting detailed in the latest version of the Global Reporting Initiative (GRI) Guidelines. Precise cost line entries will vary depending upon the nature of the organisation's activities and operations. Broad headings cover impacts to air, land and water.

What does it all mean?

The sustainability cost estimate represents the cost to the company of achieving a given improvement in environmental quality based on current (and available) technology. In this 'pure' form, to achieve consistent standards or improvements in environmental quality, it will only change for two reasons: changes in absolute emissions/impacts (which will hopefully be decreasing) or from changes in abatement technology (and the price of that technology). The sustainability cost can therefore provide a powerful indicator of a company's progress towards (or away from) environmental sustainability.

Why should companies do this?

Leading companies recognise that their long-term future and sustainability is inescapably linked to their ability to reduce their environmental impacts and to continuously improve their overall environmental performance. What were once external costs can quickly become internalised through environmental regulation and taxes. Consequently, being aware of their environmental costs (and benefits) – ie the company's exposure to potential environmental problems (before they become issues) – can assist a company's management in its forward/strategic planning and help them to reduce the company's exposure to future environmental risks and liabilities.

With a foreword to the publication from Michael Meacher, the former UK environment minister, and a high profile launch in which CIMA's new president, Harry Byrne, has described the work as 'a world class technical report', it appears that environmental accounting is now entering the mainstream.

The CIMA publication is just the latest in a series of outputs, many from other professional accounting bodies including the Association of Chartered Certified Accountants (ACCA), and the Canadian Institute of Chartered Accountants (CICA), aimed at encouraging the take up and use of environmental accounting techniques and methodologies by companies. These include 'Full cost accounting: an agenda for action'[2] from the ACCA and a recent publication from Envirowise, a government programme to help companies, particularly smaller businesses, increase their profitability through increasing their resource productivity, 'Using environmental management accounting to increase profits'[3].

Why are the professional bodies promoting environmental accounting and companies increasingly finding value in engaging in and developing their own environmental accounting systems? There are two reasons.

Firstly, and quite simply, because environmental accounting, as suggested in the title of the Envirowise publication, can provide a mechanism to unlock 'hidden value' – to reduce impacts and enhance profits through more complete and transparent accounting for aspects of an organisation's environmental performance. These so-called eco-efficiency savings can be significant. Baxter Healthcare Corporation[4], for example, a US company, has reported that environmental investments instituted in prior years back to 1992 have yielded approximately $86 million in savings and cost avoidance. These savings are now routinely quantified and presented in a periodic environmental financial statement (EFS) – a sort of cost benefit

Sustainability cost is the cost of achieving an improvement in environmental quality based on current (and available) technology

Leading companies recognise that their long-term future and sustainability are linked statement that can be applied to projects, divisions or company wide environmentally related expenditure (see www.baxter.com for more details).

There are intangible benefits associated with greater CSR

More recently, in the UK, the construction-to-services company Carillion has been working with Forum for the Future on the development of a pilot EFS for one of the company's private finance initiative (PFI) projects – the Dartford and Gravesham hospital in Kent. The draft EFS produced for Carillion and published in their 2000 environmental and community report is reproduced below.

One of the aims of producing an EFS, as noted in the Baxter example, is to demonstrate that environmental initiatives can generate an income and save money – ie an environmental programme is not a constraint on business performance but could actually make a positive contribution. This was also demonstrated at Dartford and Gravesham. In an effort to reduce waste costs, for example, and to maximise the reuse of waste materials generated, a policy of segregating waste materials into single material bins was employed throughout the construction phase of the project. Of the 3,400 tonnes of waste generated, some 1,900 (55%) was segregated in this way. In the absence of this segregation, which resulted in metal waste, for example, being collected at no cost, total waste disposal costs would have been some £50,000 higher.

Consequently the process of preparing the statement can help to find and highlight examples of best practice and cost saving opportunities that can then be replicated across the company – enhancing profits and reducing impacts. It can also contribute to the identification of inappropriate methods of cost allocation that may be leading to inappropriate/sub-optimal decisions and, by focusing attention on environmental priorities, the use of such statements can win support for environmental actions, catalyse debate and motivate the search for innovative solutions. Whilst costs still outweighed benefits in the period under review in the Carillion project, another of Forum for the Future's business partners has successfully used the EFS methodology, also outlined in the CIMA publication, to identify cumula-

The Dartford and Gravesham Special Project's environmental financial statement ...

Environmental costs	**£**
Payroll and labour costs	
Appointment of technical services manager and others time	60,000
Other costs?	X
Cost of basic programme	60,000
Remediation, waste and other costs	
Waste disposal costs	250,000
Tree protection – metal fencing	7,500
Environmental taxes paid – landfill tax, other costs etc?	X
Total remediation, waste and other costs	**257,500**
Total environmental costs	**317,500**
Environmental savings	
Income, savings and cost avoidance	
Ground stabilisation – net savings building materials avoided	111,500
Reuse of excavated material on site – fuel costs avoided	–
Avoided landfill charges/waste disposal costs	50,000
Construction of drainage swale – avoided drainage infrastructure costs	20,000
Reduced landfill tax and other waste disposal costs	X
Income from sale of recovered and recycled materials (see notes)	
Other savings etc	X
Total environmental savings	**181,500**
As a percentage of environmental costs	*57%*

NB: 'X' and '–' represent costs and savings not quantified.

tive annual cost savings and avoided costs in the region of 5% to 10% of post tax profits. This clearly provides a very powerful signal to the board to initiate further sustainability investments and to replicate identified good practice across the organisation.

However, eco-efficiency savings are only one part of the overall business case for sustainable development. More value is likely to be associated with the intangible benefits associated with greater corporate social and environmental responsibility. These include the impact on brand value and reputation, the ability to attract and retain the best people, higher productivity from a motivated and inspired workforce, access to new markets (and maintenance of existing markets) and so on. These are benefits that environmental and sustainability accounting tools and methodologies are beginning to try and quantify. Innovative work by the Co-operative Bank, for example, is investigating the link between its ethical policies and the bank's overall profitability. In the reporting year 2000, 15% to 18% of pre-tax profits were attributed to the Co-operative Bank's brand and reputation (see www.co-operativebank.co.uk or its latest Partnership report for details)[5].

The second reason professional bodies and companies are espousing environmental accounting is in the interest of improved risk management. Environmental accounting tools and methodologies can help companies to identify and develop strategies to reduce and manage external environmental (and social) risks. This is one of the main attractions of using the external cost accounting methodology outlined in the CIMA publication.

Environmental accounting tools and methodologies can help companies identify and develop strategies

Several recent legislative developments together with a number of voluntary initiatives and guidelines on reporting and public disclosure have dramatically increased the pressure on all companies to manage and report the non-financial risks – including environmental, social and ethical risks – associated with their business activities. These include the expected legislative changes in the wake of the Company Law Review, especially with regard to public reporting, the new Combined Code, the Turnbull report on internal controls, and the

... covering the three year construction phase to April 2000

Selected notes

Ground stabilisation: the net saving shown in the statement of £111,500 represents half of the total savings achieved from avoiding the use of some 26,000m^3 of type 1 granular and capping material. The saving was shared with the contractor involved in the stabilisation work. In addition to the savings shown in the EFS, nearly 2000 wagon/lorry journeys were also avoided – resulting in reduced emissions of carbon dioxide and less noise and disturbance for the local community.

Drainage swale: the construction of a drainage swale in place of conventional drainage infrastructure for the site was estimated to save in the region of £20,000 in construction costs. There are several additional benefits, not shown in the EFS, associated with the construction of the swale. Surface run-off and drainage water is diverted from going to the sewer and instead flows into the swale recharging the aquifer. A number of petrol interceptors ensure petrol, oil and other contaminants are removed from the water before it reaches the swale. The reduced volume of water going to the sewer also means a reduced volume of waste water needing energy intensive waste water treatments (saving costs for the local water company) and hence also helps to avoid yet more emissions of carbon dioxide.

Bulk excavation: during construction some 46,000m^3 of spoll was excavated along with 28,700m^3 of top soil and head deposit material. All of this material was reused on site avoiding a potential landfill tax bill of £373,500. In addition, the fuel costs alone of transporting this material to a landfill site would have exceeded £35,500 (from nearly 5,000 lorry/wagon journeys). Given that on-site reuse of excavated material is becoming standard practice these substantial avoided costs have not been included in the EFS. From an environmental perspective, the key benefit resulting from this successful 'cut and fill' exercise was that fact that very little additional/new building material had to be imposed onto site. Other benefits include avoided emissions of carbon dioxide and less noise and disturbance to the communities living around the site.

Source: We are making choices, Carillon's Environment, Community and Social Accounting Report 2000.

Association of British Insurers' (ABI's) Guidelines on Socially Responsible Investment (SRI).

Together with the Pensions Act disclosure requirements and the Myners Review, 'Institutional investment in the UK: a review'[6], several of these initiatives promote active institutional investor engagement with the companies they are investing in, in relation to their environmental, social and ethical performance. Consequently, finance directors and investor relations departments, if they are not already doing so, will increasingly have to incorporate a review of these issues and how their companies are dealing with them to reduce risk and add value in their communications with financial stakeholders. Environmental accounting tools and methodologies, especially external cost accounting (covering both environmental and social impacts) can help them meet these requirements. (See Wessex Water's external cost accounts for the period to 31 March 2001 as shown).

Greater understanding will lead to more appropriate and higher targets being set

Needless to say, external cost accounting is still evolving. Consequently the accounting framework outlined in the CIMA publication is likely to undergo some changes as more companies begin to engage – and experiment – with the methodology. It has, after all, taken us several centuries to develop the current, and still dynamic, framework of financial accounting and reporting standards. However, the broad approach is likely to remain constant – namely, to identify where a company is in terms of its environmental impacts, to determine appropriate 'sustainability' targets or standards to aim for, and to work out the most cost effective way for the company to close that 'sustainability gap.'

Greater understanding of environmental sustainability and improvements in scientific understanding will lead to more appropriate and generally higher targets being set. In any event, it seems likely, as Bulmers' group financial manager Dave Marshall noted in a recent article, that eventually every company will have to make these calculations as part of routine accounting and reporting requirements – particularly as investors begin to ask questions about the cost of unsustainable business.

As Marshall commented, "There is something to be said for being prepared."[7] MQ

Forum for the Future works in partnership with businesses, local authorities, regional bodies and universities. It aims to help them deliver their commitment to sustainability, providing advice and developing partnership work on issues as diverse as climate change, procurement strategies, environmental accounting and the digital divide. Forum for the Future also communicates what it has learned from these partnerships to a wider network of decision-makers and opinion-formers and it runs a number of cutting edge projects engaging with a much wider audience in NGOs, business, higher education and government on key sustainable development challenges. For more information on the Forum's Sustainable Economy Programme, telephone: 020 7324 3610; or e-mail: r.howes@forumforthefuture.org.uk

Footnotes

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A finance director's practical guide

Aidan Turnbull, a principal consultant at WS Atkins specialising in corporate sustainability policy and implementation, explains why environmental management accounting (EMA) is a key element in achieving a company's CSR policy. He wrote the Envirowise guidelines on EMA, published by the government earlier this year – whose main principles are summarised below.

Using environmental management accounting to increase profits

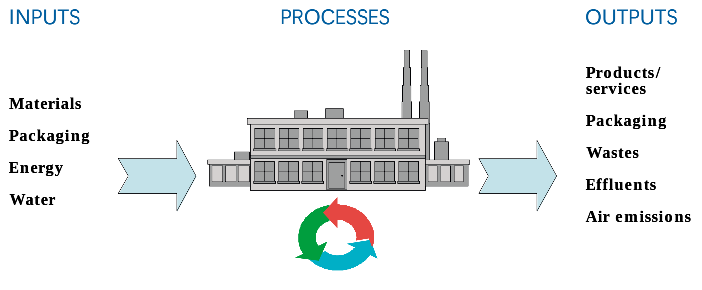
Using fewer resources will help the environment and business

Using fewer resources and minimising waste will deliver significant benefits not only to the environment, but also to business, and points the way to a more sustainable economy in the future. Moreover, accountants are in a unique position to use environmental management accounting (EMA) techniques to review business costs and highlight opportunities to improve resource productivity.

Within the business world there is growing recognition that good environmental performance, as well as financial results, is important for the long-term value and success of a business. Improving resource productivity – so as to produce more goods and services with fewer inputs of materials and utilities, and with less pollution and waste – will increase business efficiency, and hence profits.

In the environmental management accounting guidelines[1] published earlier this year by the government's Envirowise programme (and written in close consultation with a steering group comprising representatives from ICAEW, CIMA, ACCA, Environment Agency and Environmental Management Accounting Network Europe) we highlight that companies using this approach can expect average cost savings of 1% to 3% of annual turnover.

Figure 1 Environmental costs of business operations



Business benefits of environmental management accounting

All businesses affect the environment by their use of materials and utilities and their generation of products, wastes and, indirectly, greenhouse gases from their use of energy derived from fossil fuels. The consumption of materials and utilities and generation of wastes are significant business costs which are paid for directly by companies – the larger the quantity, the bigger the cost and larger the impact on the environment.

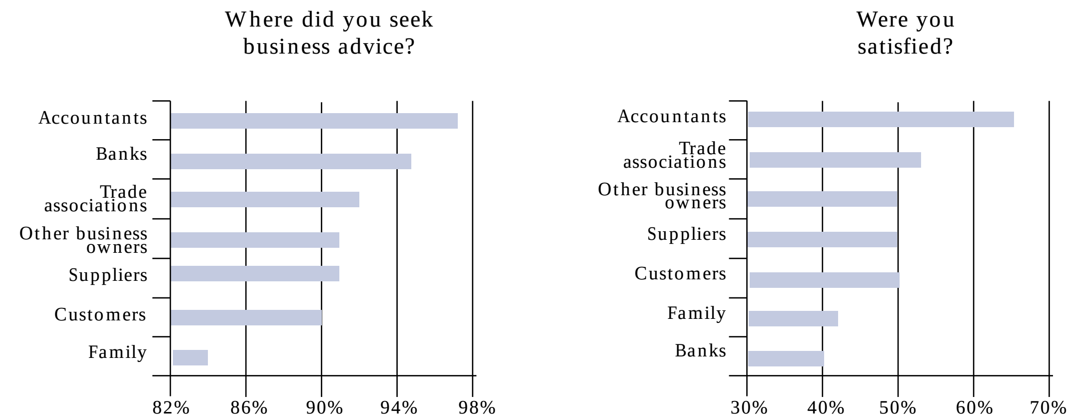
Environmental management accounting focuses on these operating costs (which it refers to as environmental costs – see Figure 1, left) and involves identifying, analysing, managing and reducing them in a way that can benefit both the business and the environment.

Environmental management accounting can help businesses by:

- improving resource productivity and thus generating more profit or reducing operating costs (typically equivalent to 1% to 3% of business);
- giving more control over the environmental

Figure 2

Federation of Small Businesses Survey, October 2000



costs of processes, products and services;
- identifying the environmental factors affecting the business;
- making it easier to comply with environmental regulations; and
- improving the company's reputation with its stakeholders – insurers, regulators, investors, shareholders, employees, customers and neighbours – who will all react more positively to a company that can demonstrate that it is aware of its impact on the environment and is taking steps to improve its performance.

Why should accountants be involved?

Accountants should be involved because:

- they are ideally placed to work with other business managers to apply environmental management accounting techniques;
- they are in a unique position to review business costs of the company when producing the profit and loss account as part of the year end financial reports and monthly and quarterly management accounts;
- they have a direct interest in controlling and reducing business costs and increasing profits;
- they have the necessary skills and experience to measure, allocate and control costs as well as to identify and plan financial budgets for improvement projects;
- environmental management accounting is an opportunity to develop the services they offer beyond the traditional core skills of accounts preparation, audit and tax; and
- the business advice provided by accountants is highly regarded.

In October 2000, the Federation of Small Businesses published the results from a survey[2] of 22,000 small businesses that collectively employed more than 360,000 people, the largest non-government survey of the small business sector ever undertaken in the UK. In it, 97% of respondents indicated that they sought business advice from accountants and the highest levels of satisfaction were also received for business advice from accountants, – see Figure 2 (above).

Estimating the potential savings

Good environmental management is part of good management generally. As with any business expenditure, if the costs are not reviewed periodically they will tend to drift upwards. Inefficiencies and wasteful practices tend to creep into any system which is not measured, monitored and controlled. Taking a systematic look at environmental costs for the first time is therefore bound to find opportunities for improvements and cost savings.

Adopting a structured approach to measuring and managing resource productivity can help companies make cost savings of between 1% and 3% of annual turnover, depending on the nature of their business operations. This is backed up by evidence from resource productivity programmes at over 500 companies. Over 60% of the cost-saving projects that these companies undertook involved little or no capital cost.

> Adopting a structured approach can lead to savings of between 1% and 3%

Applying EMA techniques at companies where the cost of materials, utilities and wastes account for about 80% of the business cost can achieve typical cost savings of about 3% of annual turnover. Companies where environmental costs account for about 30% of the business cost can, on average, save about 1% of annual turnover. This relationship is illustrated in Figure 3 (below) which will help estimate the potential cost savings that the company could achieve.

Improved cost control

Reviewing environmental costs will help accountants identify risks and opportunities

Several case studies[3,4] demonstrate that it is often a small number of products, processes and services that generate a large proportion of environmental costs. The problem with environmental costs is that they frequently get hidden as overheads and/or they are inappropriately allocated. This leads to some products, processes and services appearing to have higher costs than is the case, while others appear to be cheaper than they really are.

This problem is not unique – it also applies to many other types of cost. The technique of activity based costing (ABC) develops a detailed understanding of the actual cause-and-effect cost drivers and uses this information to re-calculate the costs of products, processes and services. The ABC approach shares many similarities with environmental management accounting techniques, which focus on cost drivers for materials, utilities and wastes.

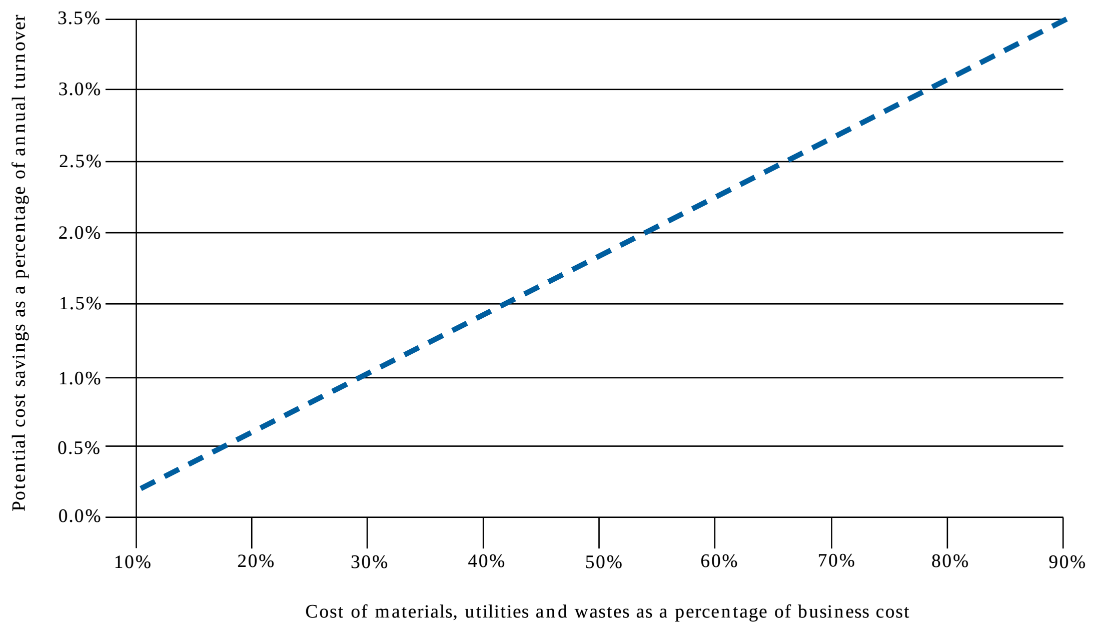
Strategic management of current and forthcoming environmental factors

Many companies do not fully understand the implications of environmental factors on their business operations – largely because the accountants, environmental managers and others with the relevant information are seldom brought together to consider the matter. Applying EMA techniques gives companies the opportunity to take a more strategic view of how current and forthcoming environmental factors will affect the business's short term profits and longer term competitive advantage.

Reviewing the environmental costs of business operations will help accountants identify financial risks and opportunities inherent in the company's consumption of materials and utilities and generation of wastes. For example:

- environmental taxes to discourage poor environmental performance (eg the landfill tax[5] and Climate Change Levy[6]) and tax breaks to reward good environmental prac-

Figure 3 Typical potential cost savings as a percentage of annual turnover



tices (eg enhanced capital allowance[7] for energy efficiency investments) are likely to become more common; and
- some materials have become more expensive or their use banned for environmental reasons. For example, the EC directive on the 'Restriction of certain hazardous substances in electrical and electronic equipment'[8] will require the use of lead, cadmium, mercury, chromium VI and brominated flame retardants to be phased out of the manufacture of certain types of electrical and electronic equipment by July 2006.

At the same time, by searching for ways of delivering quality products and services to the customer using fewer materials and utilities, companies may find better design and distribution solutions whilst also capturing cost and reputation benefits.

Case study: environmental management accounting at Bovince Ltd

The environmental management accounting guidelines are firmly grounded in extensive practical experience of assisting companies to achieve substantial cost savings by reducing materials and utilities consumption, and generation of wastes. By way of example, the guidelines also include a detailed case study of the benefits of environmental management accounting at an east London printing company, Bovince Ltd. It highlights how the systematic approach helped the company save 5% of annual turnover, equivalent to £181,000 per year.

Many people believe that only companies that are relatively poorly managed to begin with can achieve cost savings of this level. However, Bovince was a well managed company before it implemented environmental management accounting. The company's successes before adopting the new approach included winning a Waltham Forest Business of the Year award, the implementation of an effective quality management system and the award of prizes for the quality of its bus-side posters.

The evidence shows that companies that already have good business management systems, like Bovince, are likely to apply environmental management accounting techniques more systematically and, as already mentioned, make annual cost savings above the expected average of 1% to 3% of turnover.

According to Bovince itself, "environmental management accounting has given us new insights into the company's business costs and enabled us to identify valuable opportunities for environmental cost savings. Improving our environmental performance and making the business more profitable are key elements in our drive towards achieving the company's sustainable development policy." MQ

Footnotes

1. 'Good Practice Guide GG374: Increase your profits with environmental management accounting' is available, free, from the Environment and Energy helpline 0800 585794

2. 'Barriers to survival and growth in UK small firms' Federation of Small Businesses, October 2000

3. 'Green ledgers: case studies in corporate environmental accounting' Ditz, Ranganathan and Banks, World Resources Institute, 1995

4. 'Calculating the true profitability of pollution prevention' Schaltegger and Muller, *The green bottom line – environmental accounting for management*, Greenleaf Publishing, 1998

5. A landfill tax of £7 per tonne for active waste and £2 per tonne for inactive waste was introduced in the Finance Act 1996, on 1 October 1996. In the March 1998 budget, the standard rate was raised to £10 per tonne, which took effect from 1 April 1999, whilst the lower rate for inactive waste was frozen at £2 per tonne. In the March 1999 budget the standard rate was given a yearly increase, or 'landfill escalator', of £1 per tonne per year for a period of five years (culminating in a rate of £15 per tonne in 2004/5).

6. The climate change levy was introduced in April 2001 and is applied to energy bills before VAT is added. Overall, this tax has increased the price of energy by about 15%. Further information is available at: www.climate-change-levy.info

7. The government's enhanced capital allowance (ECA) scheme was launched in August 2001 to encourage businesses to invest in energy efficiency technologies. The scheme enables businesses to claim a 100% first-year capital allowance for investments in selected energy-efficient technologies. The benefit to businesses is thus a cash flow boost resulting from the reduction in the business's tax bill for the year in which the investment is made. Further details about the ECA scheme, together with a list of eligible energy efficient equipment, are available at: www.eca.gov.uk

8. Detailed information about the EC directive on the 'Restriction of certain hazardous substances in electrical and electronic equipment' is available at: www.dti.gov.uk/sustainability

APPENDIX A

Sustainability tools – building the case for CSR

Over the last couple of years, SustainAbility, a strategic management consultancy and think-tank founded in 1987, has published two studies exploring the links between the different dimensions of CSR and traditional business performance indicators – 'Buried treasure: uncovering the business case for corporate sustainabilty', and 'Developing value: the business case for sustainability in emerging markets '. These reports identify approaches to the business case for CSR which have proven to be effective at many leading companies. Below is a step-by-step guide to developing the business case, pulled from those two reports.

Step 1 – identify your key business drivers and performance metrics
Every company has primary business drivers such as brand value/reputation, human and intellectual capital or risk profile. Which ones are key to your business? For example, is a good reputation with customers paramount? Would improving productivity, perhaps through reduced downtime and absenteeism, give you a real competitive edge?

Step 2 – identify CSR dimensions which are relevant to your business
What dimensions of CSR are most important to your business – governance/management; stakeholder engagement; environmental impact of processes; environmental impact of products/services; local economic impact; community development; human resource management? Determine which issues are of significant importance to your business, and how you define them. For example, is employee health/safety the most important component of human resource management for your company?

Step 3 – assess opportunities associated with various CSR dimensions
Are there untapped opportunities for action on environmental, social and/or governance issues? These could include reduced costs from environmental improvements, access to new markets or premium product pricing, or a lower cost of capital.

Step 4 – assess threats
What are the threats to the business from the emerging sustainability agenda? These could be coming from conditions in the supply chain, reputational risks to you or your customers, or increasing informal barriers to trade (eg product standards imposed from elsewhere).

Step 5 – summarise the relationship between business drivers/performance metrics and CSR dimensions
You may wish to utilise a matrix such as the one available on our web site – www.sustainability.com/business-case/matrix.asp – and define potential impacts at each intersection as: strong positive; weak positive; none; weak negative; strong negative.

Step 6 – assess organisational strengths and weaknesses
What are the business strengths and weaknesses which will determine your ability to respond to sustainability challenges, opportunities and threats? Do you have the skills and expertise to manage this emerging set of issues, or understand how to gain this expertise?

Step 7 – estimate the level of effort and/or relative cost associated with focusing on improvements in specific areas
Unless the improvement consists of installing a piece of equipment, it will not be possible to identify the precise financial costs. Start by defining relative effort/costs (high/medium/low). Build out the costs as needed to feel confident that moving forward in specific areas makes sense, and as required to achieve management approval.

Step 8 – prioritise
Considering all of the information collected, determine which issues receive highest priority, and consequently the highest degree of resources.

Throughout the process of building a business case, it is important to:

- consider the long view. Think not just in terms of quarters, but quarter centuries as well; and
- draw on the insights and experience of many people from within and outside the company. Early engagement with external stakeholders will add important insights on their concerns and priorities, which will help in understanding the trajectory and relevance of sustainability issues.

Building the business case will not only convince you and your senior leadership that CSR has distinct business advantages, but, done properly, it can also help you focus on the issues which derive the greatest benefit. MQ

'Buried treasure: uncovering the business case for corporate sustainabilty' (SustainAbility, 2001); 'Developing value: the business case for sustainability in emerging markets' (SustainAbility, 2001). For further information, contact SustainAbility on tel: 020 7269 6900; fax: 020 7269 6901 or e-mail: info@sustainability.com

APPENDIX B

Bibliography

The following selected publications – which should be read in conjunction with the 'References and further reading' lists published at the end of each article, are selected from a reading list compiled by the Library & Information Service for the ICAEW Sustainability Resource Centre. More information on this and other topics can be found in the Library catalogue, LibCat: www.icaew.co.uk/library and in the Sustainability Resource Centre: www.icaew.co.uk/sustainability

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- ACCOUNTING FOR PEOPLE. May 2003 consultation paper on human capital management (HCM). London: 2003 DTI. 9 pages. Available at: www.accountingforpeople.gov.uk

- International code for multinationals introduced by OECD.
  Company Lawyer, Vol.21. No.10. November/December 2000. p.306. 1pp. Available on the OECD web site at: http://www.oecd.org//daf/investment/guidelines/mnetext.htm MQ

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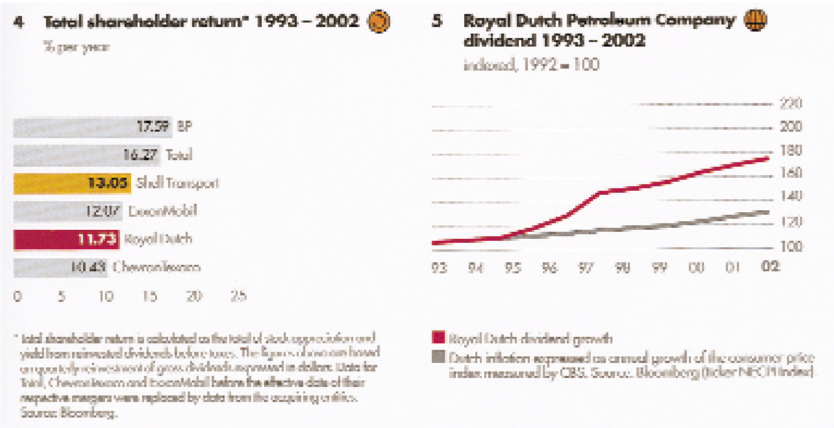
APPENDIX C

Reporting examples

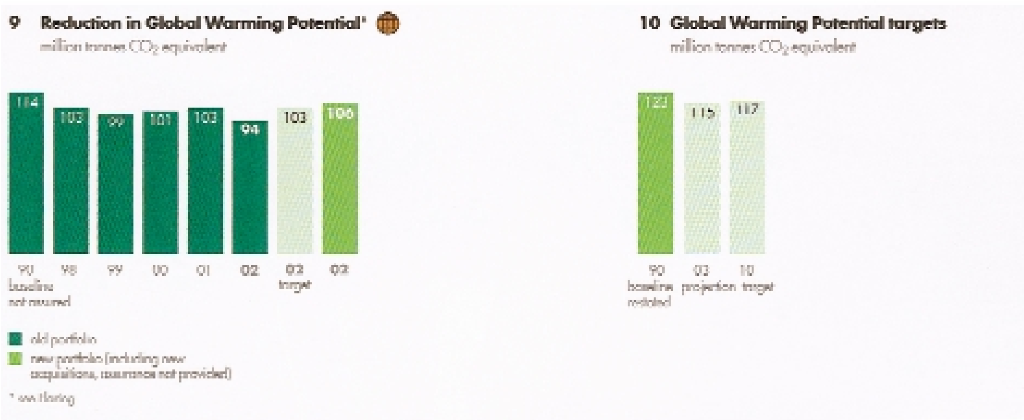
Two large multinational groups which have been in the forefront of the reporting of sustainability and CSR issues are Shell and Philips. In Figures 1 and 2, we reproduce, with the kind permission of both companies, brief excerpts from their recently published 2002 annual reports on these issues. The reports themselves, of course, provide a wealth of further information.

Figure 1 ‘Meeting the energy challenge’ – the Shell report 2002



Shell’s 48-page report includes sections on economic, environmental and social performance, in addition to general corporate information (symbols on graphs show data externally assured by Shell’s auditors).

From ‘economic performance’



From ‘environmental performance’

From ‘social performance’

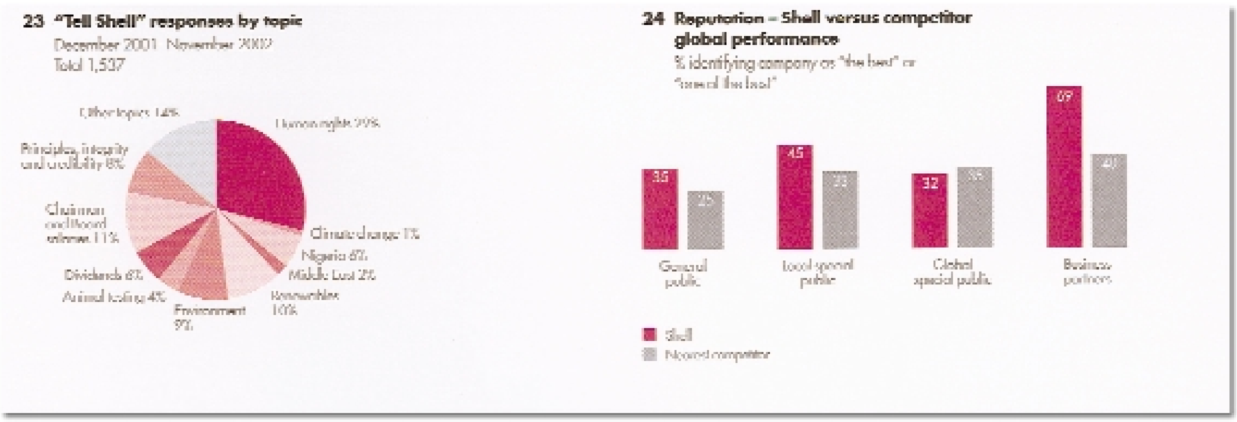


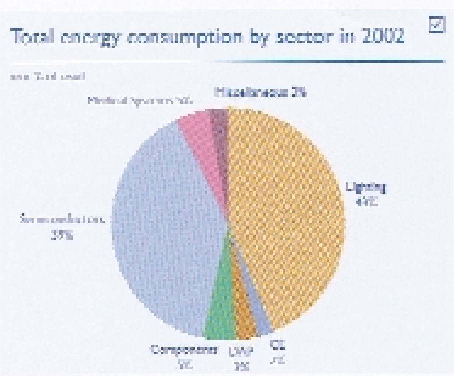
Figure 2

The Philips sustainability report 2002

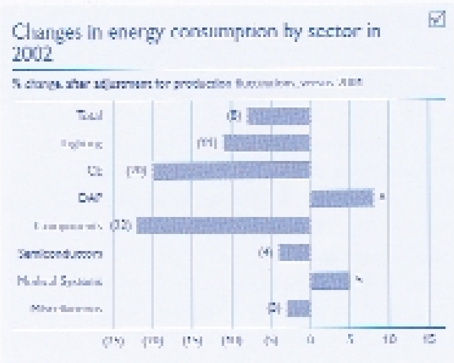
Philips' 72-page report covers sustainable development as well as economic, environmental and social responsibility and other sections.

Philips is the sustainability leader in the consumer electronics sector of the Dow Jones Sustainability Index. This tool allows investors to track the triple bottom line performance of leading sectors and companies.

From 'economic responsibility'

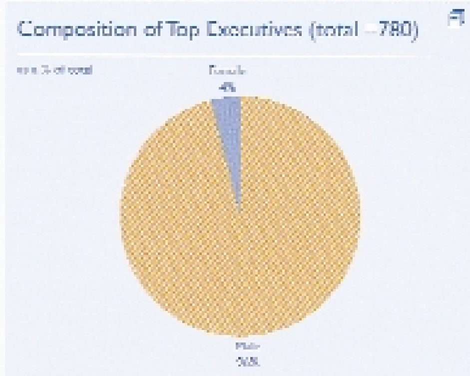


Both Lighting and Semiconductors achieved relative energy reductions, by 11% and 4%, respectively, driven by focused energy management.



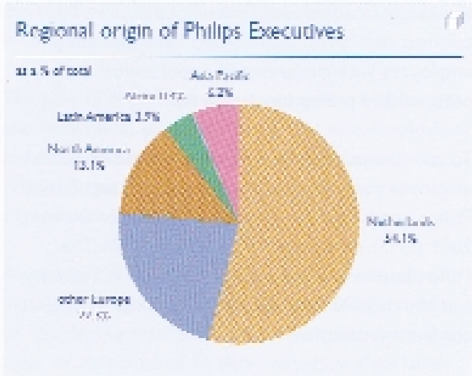
In 2002, 70% of the total energy consumption was related to electricity.

From 'environmental responsibility'



Overall, high ranking women are less visible in the technology sector than in other industries. Historically this is because the path to senior management in this sector has been through traditionally male dominated disciplines like engineering and R&D.

Philips recognizes the need to attract and retain talent, and understands that the only way to truly tap the full talent potential available is to do a better job of recruiting and developing women. Therefore, the company will work to increase the number of women in senior management – raising the percentage to at least 10% within four to five years, more than doubling it from the current 4%.



In terms of global representation within management, we will focus on improving the balance across the regions. Particularly, in the Asia Pacific region, the number of Asians in senior management positions is considered unsatisfactory.

From 'social responsibility'

APPENDIX D

Selective glossary

ACORN	Government project set up in conjunction with the private sector, to assist SMEs in implementing environmental management systems. www.dti.gov.uk/sustainability/
Durability	This term arose in Centre for Tomorrow's Company (CTC) report, 'Twenty first century investment'. Recognising the impact on business behaviour of changing demographics, the rise in importance of intangibles compared to traditional financial assets and the growing importance of social, ethical and environmental considerations, CTC developed the concept of sustainability to the term 'durability'. Companies which are durable experience long term growth in their value. This term recognises that companies which do not embrace sustainable development cannot be durable and that this consideration needs to be reflected by the capital markets in the investment decision making process.
Environmental accounting	An approach to recording the environmental impacts of a business which involves the generation, analysis and use of monetarised environmentally related information. The purpose of this approach is to improve the management and understanding of corporate environmental and economic performance.
Environmental financial statement (EFS)	A sort of cost benefit statement that can be applied to projects, divisions or company wide environmentally related expenditure.
NGO	Non-governmental organisation
SIGMA	Government project for developing practical tools for implementing sustainability. www.dti.gov.uk/sustainability/
Socially responsible investment (SRI)	A movement whereby investments are selected on an ethical basis linked to sustainable development (eg tobacco, arms and nuclear power industries) are screened out from investment portfolios together with certain other companies which have failed to engage positively in the debate.
Sustainability cost	The cost that an organisation would need to spend to restore or avoid the most significant environmental damage caused by its activities and operations over an accounting period.
Sustainability cost estimate	This represents the cost to a business of achieving a given improvement in environmental quality on current (and available) technology.
Sustainability gap	The estimation/determination of what a sustainable level of emissions/impacts may be.
Sustainable development*	'Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.' **A term first coined by the UN-formed Brundtland Commission, in 1987. The definition has been interpreted to mean action should be taken to improve environmental protection, social equity and economic growth. It was recognised that this would require technological and social change.*
Waste and Resources Action Programme	WRAP is a government sponsored charity which supports the development of markets for a variety of recycled materials, including: glass, plastics, paper, wood, organics and aggregates. www.wrap.org.uk/

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