



REALISING THE VALUE, ENHANCING BUSINESS
SUCCESS



January 2003

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The logo for ACBE (Association of Corporate Business Executives) is displayed in a blue serif font within a thin blue rectangular border.

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Over the next five years, the management of issues previously described as ‘non-financial’ such as employee rights or climate change will become increasingly important. The Government will be considering its response to the recommendations of the independent Company Law Review, which proposed wide-ranging changes to reporting for economically significant companies, including non financial elements such as environmental and social issues where these are relevant to an understanding of the company. The growth of emissions trading in the UK and EU will directly link environmental costs to the bottom line. The Government consultation process around institutional investment and the growing response to the revisions to the 1995 Pensions Act are also expected to increase pressure on the investment industry to consider non-financial performance in their investment strategies.

In 2000 ACBE produced Value, Growth, Success – how sustainable is your business? Aimed at the Board, it provides a framework to assist companies in considering non-financial issues (environmental, social and economic) at a strategic level. By asking a series of questions, it enables management to determine whether the issue is a potential opportunity or risk for the business and to factor that issue into their decision making process.

This document takes those issues identified as key and prioritises them. Aimed at the senior management team, it describes a straightforward process of risk management. It is not a complete methodology for risk evaluation; many such tools already exist. Rather, it is a prompt for factoring emerging issues into existing risk management procedures. Such issues have historically fallen outside the remit of traditional risk management, but are having an increasing bottom line impact. A number of key current and emerging issues are listed in this document as a starting point for your risk analysis.

ACBE urges you to consider the issues raised by this paper at your next governance meeting as the next step in managing the risks and realising the opportunities of social and environmental performance.

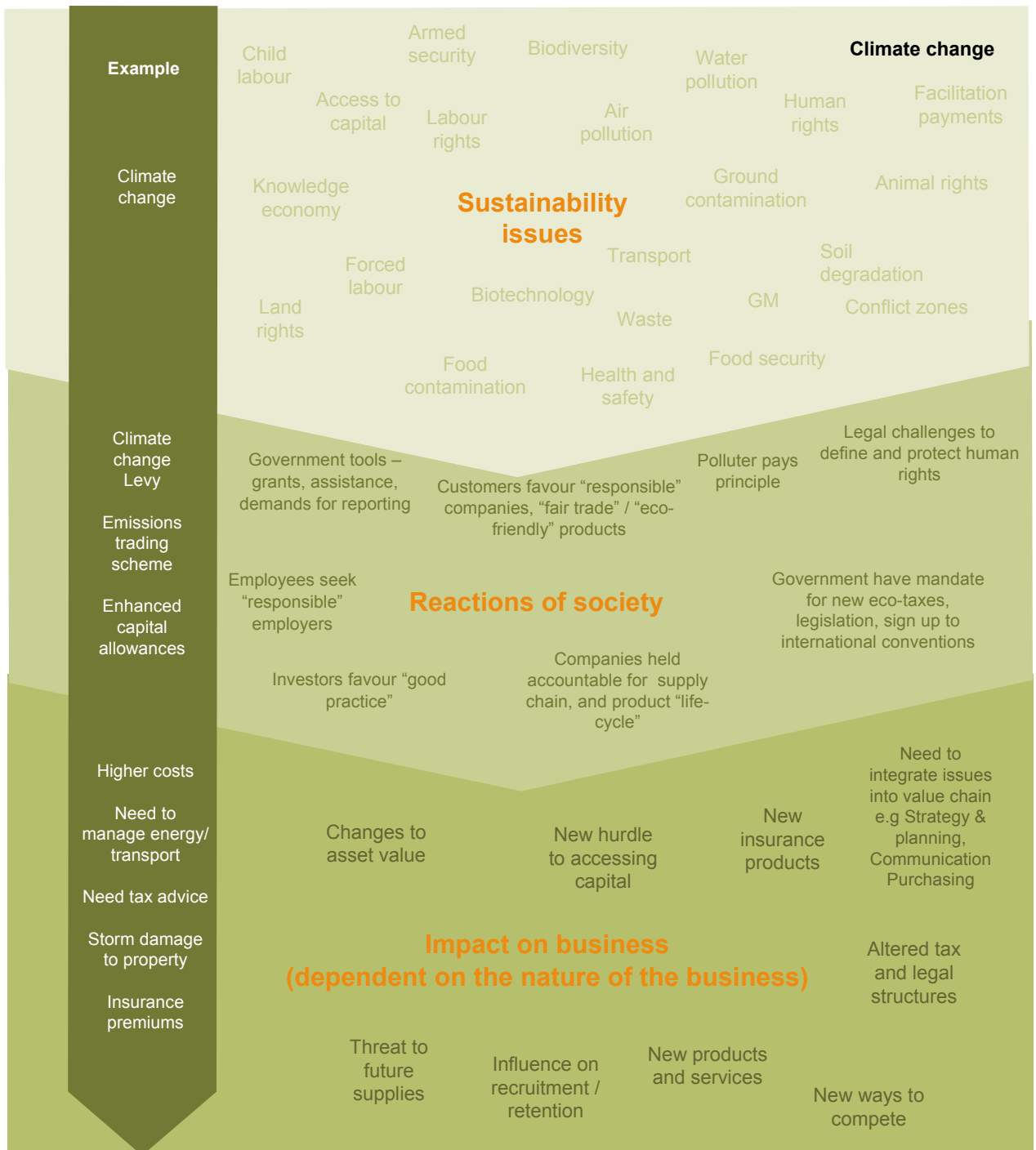
Yours sincerely

Chris Fay

ACBE, Chairman

Sustainability issues impact business

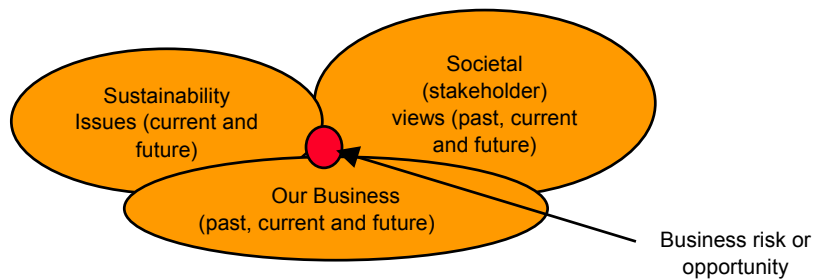
In many societies throughout the world, there has been a gradual increase in awareness about environmental and social issues, and a development of ideas about what is acceptable. Increasing access to information through the internet and media has supported this trend. At the same time, globalisation of commerce has meant that businesses are increasingly linked to practices in other parts of the world. As a consequence, there are increasing pressures on business to be accountable for social and environmental aspects of their operations, supply chains, products and services. This figure depicts how sustainability issues get translated into threats and opportunities for businesses. In recognition that achievement of ecological sustainability is inextricably bound up with other human issues, a wide range of issues has been included in this illustration.



Guidance

“To factor in routine evaluation of social, environmental and economic risks as part of corporate strategic review”

Business risks and opportunities arise where society is concerned about a sustainability issue that affects / is affected by the business



The flow diagram opposite describes the key steps in undertaking a strategic risk review. All businesses routinely evaluate strategic risks to their business using a variety of management processes. They all include the following stages:

Is this issue significant for our business?

In other words, does this issue have the potential to impact on us attaining our business plan, or even alter our plan through changing the context in which we operate, and thereby altering the analysis of our strengths, weaknesses, opportunities and threats (SWOT analysis)? Frequently analysis of environmental and social issues is not directly linked to business objectives. This analysis could be part of the Turnbull risk assessment for the business or integrated into other approaches the company uses to inform its strategies.

How do we know we are right?

Businesses are often unaware of how sustainability issues can affect them. They need to be confident that their assessment methodology gives them the right answers, or at least a range of considered options. Confidence can be derived by considering what others in the sector think; what investors think; what Government is saying; and what sustainability thought leaders are saying. However, where competitive advantage is involved, then the company may have to make its own judgements. It should ensure it has adequate expertise and experience available to inform and support these judgements.

Does the issue present a risk or an opportunity?

Sustainability issues are changing the context in which business operates. The change may be a risk if a company does not take appropriate action, but for those that understand the nature and direction of the change, it represents an opportunity. It is probable that business will need to change as sustainability issues develop. Some current businesses will win, and others will lose. The nature of a business and its strategic direction therefore has to be considered in the light of this change in context.

What mechanisms are in place to address this risk / opportunity?

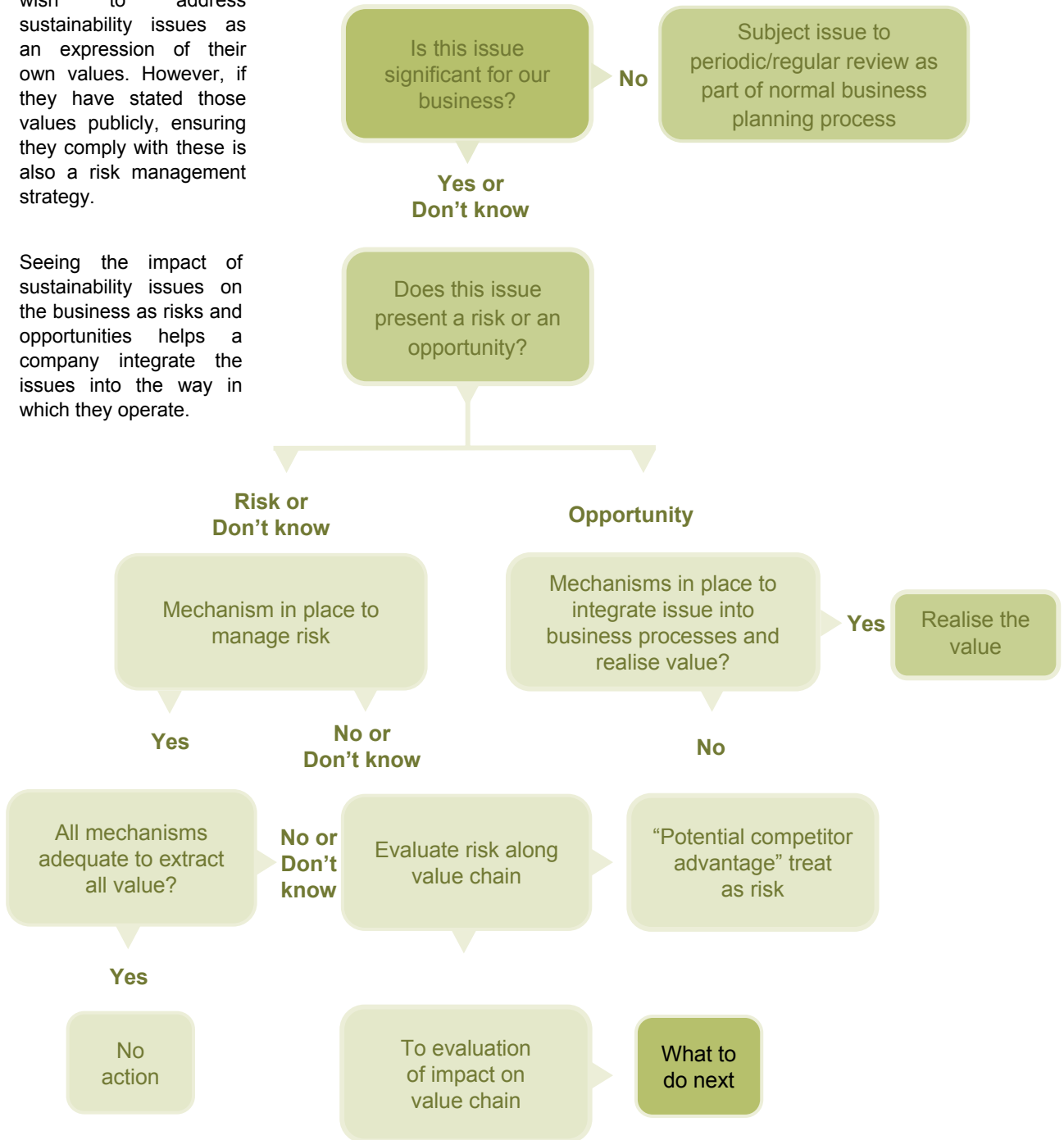
Once threats and opportunities are identified, a business needs to ensure that this understanding is fully integrated into its business planning and implementation. The business needs to set a policy and operational framework for including consideration of these issues within the business, and to implement mechanisms to ensure all business decisions at all levels in the organisation are taken within this framework. Mechanisms need to cover both procedural elements and employee motivation.

Strategic review

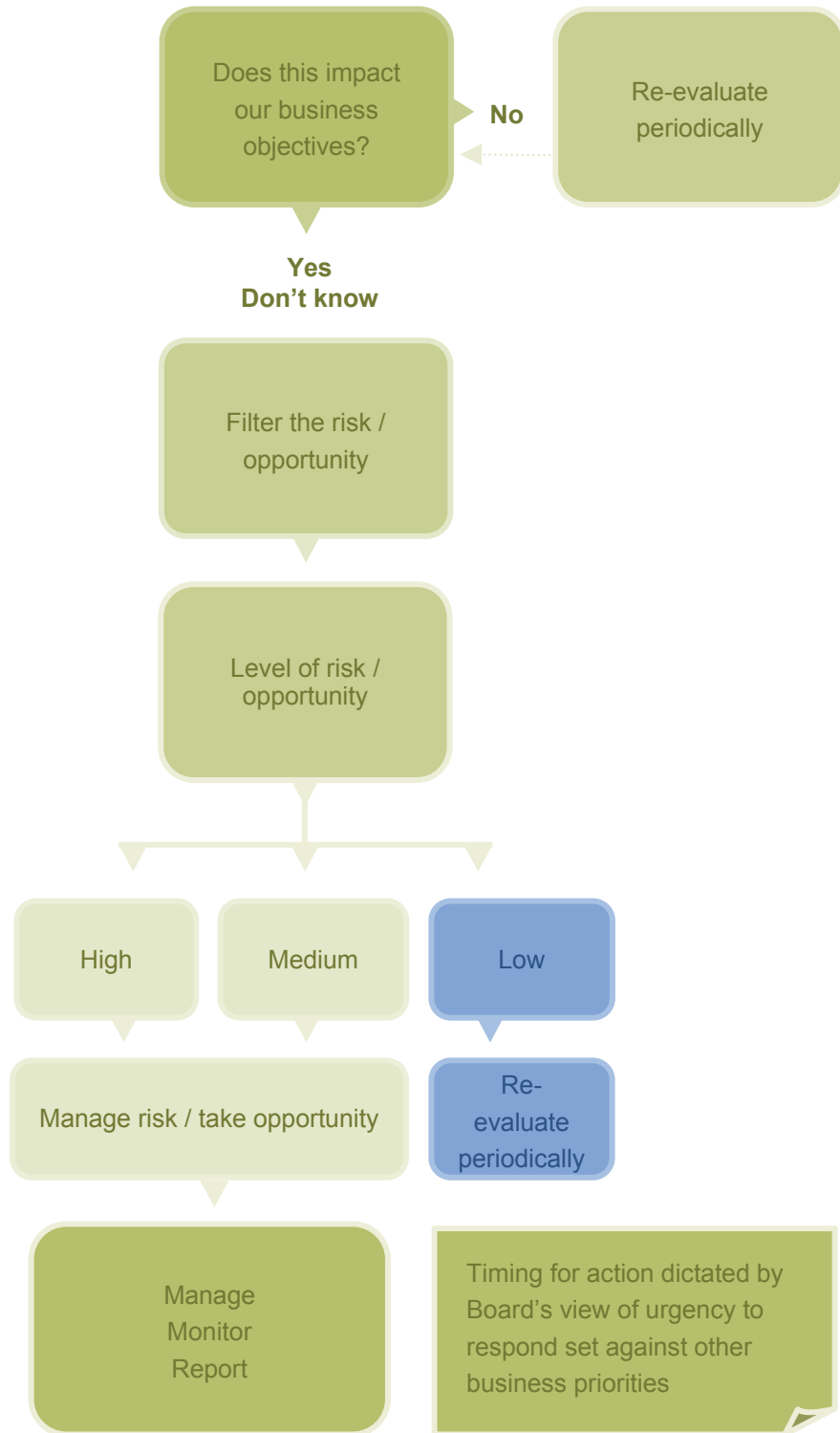
This section suggests a way of thinking about sustainability issues in the context of a business.

Companies may also wish to address sustainability issues as an expression of their own values. However, if they have stated those values publicly, ensuring they comply with these is also a risk management strategy.

Seeing the impact of sustainability issues on the business as risks and opportunities helps a company integrate the issues into the way in which they operate.



What to do next



Evaluating risk / opportunity

1. Filter the risks / opportunities

Risks and opportunities that have been identified need to be evaluated, in order to prioritise them (between them, and against other business issues), and to determine the extent and nature of the resource to be allocated to addressing them. The box opposite suggests an approach to prioritising identified risks and opportunities posed to the business by sustainability issues.

Filters

	Low	Medium	High
Factor 1			✓
Factor 2	✓		
Factor 3		✓	

1. What is the likelihood of this occurring?
2. What is the potential severity of the impact on business objectives?
3. How severely are our competitors affected?
4. How soon will this happen?

Scenario: Effects of climate change on weather patterns disrupts supply of products by affecting availability of raw materials (i.e. growth rates and plant based ingredients is impacted)

Transfer risk	Include risks such as supply disruption into suppliers contract
Mitigate risks	Minimise exposure through cutting down impacted products
Minimise risks	Diversify product range
Accept risks	Retain same product range and take no action with suppliers
Insure risks	Diversify range of suppliers

2. Determine the response strategy

The business will have a range of response options for each issue. The best option will depend on the nature of the risk / opportunity, other priorities, available skills etc. The response strategy should be kept under regular review. The box below illustrates how a range of options are available for a particular risk / opportunity.

References

This section lists some of the key initiatives currently underway to address sustainability issues within business

Guidance	Summary
Global reporting initiative	GRI is an international initiative to provide a common framework for voluntary reporting of sustainability impacts of a business. The reporting guidelines are currently being revised. http://www.globalreporting.org
Company law review	A three-year independent review of company law under the auspices of the DTI. The final report, published in July 2002, recommended a number of changes to the company reporting regime including a new Operating and Financial Review for economically significant companies that would contain non financial information such as environmental issues where these were material to an understanding of the company.
ACBE	ACBE published Value Growth Success- how sustainable is your business aimed at Chairman and Board members – a simple tool to guide Board members in evaluating the impact of sustainable development on their business strategy and operations http://www.defra.gov.uk/environment/acbe/directors/index.htm
Association of British Insurers	Guidelines for reporting on social, environmental and ethical matters Intended to assist companies in addressing the concerns and requirements of their shareholders in relation to social, environmental and ethical (SEE) matters http://www.abi.org.uk/researchinfo/socialresponsibility
Institute of social and ethical accounting	A professional institute promoting good practice in social and ethical accounting http://www.isea.org.uk/
Just Pensions	Socially Responsible Investment and International Development publication aimed at Trustees and Fund managers it presents the business case for social responsibility and indicators to look for in company social and environmental performance http://www.justpensions.org
Pensions Act 1995	An amendment to the 1995 Pensions Act in July 2000 requires pension fund managers to declare the social, environmental and ethical criteria that they place on their investment decisions
UK Emissions Trading Scheme	The UKETS provides a framework for companies to buy and sell allowances for greenhouse gas emissions http://www.defra.gov.uk/environment/climatechange/07.htm
Centre for Tomorrow's Company (CTC)	21 st Century Investment: an agenda for change. Published by CTC a study of the effectiveness of accountability within the pensions value chain with a separate agenda for action for trustees, investment managers and investment consultants http://www.tomorrowcompany.com
National Association of Pension Funds (NAPF)	The NAPF has published Engaging For Success which provides advice for company pension fund Trustees and investment managers on corporate social responsibility http://www.ibe.org.uk
Association of Chartered Certified Accountants (ACCA)	Promotes transparency in reporting the business impact of activities on sustainable development, issues a free web based newsletter (Accounting & Sustainability) and is involved in reporting awards in more than 20 countries. www.accaglobal.com/sustainability

This paper was produced by a working group of ACBE chaired by Gerry Acher of KPMG. ACBE is grateful to KPMG for their contribution to its development and preparation. ACBE is an independent advisory committee whose members are jointly appointed by the Deputy Prime Minister and the Secretary of State for Trade and Industry, and serve in a personal capacity. The contents of this report may be produced free of charge in any format or medium without requiring specific permission. This is subject to the material not being used in a misleading context. The source of the material must be acknowledged as the Advisory Committee on Business and the Environment and the title of the report included when content is reproduced as part of another publication or service. Any enquiries about the use of the content of the report should be addressed to ACBE Secretariat at the Department of Environment, Food and Rural Affairs, ZONE 6/D9, Ashdown House, 123 Victoria Street, London SW1E 6DE.

Charting the impact of climate change through the value chain

Concern about “climate change” is resulting in a range of policy and legal measures that are aimed at reducing emissions of Greenhouse Gases. These measures have a range of effects on aspects of a business as illustrated below.

Function	Derive confidence from ...	Be concerned if ...
Strategy and planning	New investment is evaluated for energy efficiency and energy costs	No consideration of energy issues in investment evaluation
Investor Relations	Investors have clear requirements for information on climate change issues Investors are satisfied with climate change programmes	No current dialogue with investors on energy and GHG gas issues Limited ability to provide a response to investors on energy and GHG policy and approaches
Sales and marketing	Business is using climate change issues as a differentiator e.g. low Greenhouse Gas (GHG) equipment, low transportation distances	No assessment of market sensitivity to climate change issues
Information management	Information management system for climate change gases is reliable	No information management system for climate change gases
Research and development	R&D evaluates implications of energy costs, future bans on GHGs, transport requirements	No consideration of energy costs, future bans on GHGs, transport requirements
Logistics	Processes in place to minimise transport requirements Assessment of energy use	Transport use is rising
Purchasing	Purchasing policy includes consideration of transport requirements	
Production	Business has programmes in place to minimise energy use Strategy to remove GHGs from fire and cooling systems exists	Energy use is rising No impact assessment of climate change levy undertaken
Communications	Ability to report GHG gas emissions and strategy	Not prepared in the event of mandatory reporting or participation in emissions trading
Estates management	Processes in place to reduce energy use and GHG emissions Measurements of energy consumption	No energy consideration in refurbishment and new build No identification of assets at risk from flooding

Charting the impact of human rights through the value chain

Human Rights concerns such as equality, right to work, right to access to resources etc. are becoming increasingly enshrined in law and the norms of society in many parts of the world. Concerns about these issues, and measures taken to enforce Human Rights affect the way a business operates. It may have to justify the way in which it operates e.g. child labour in supply chains, or it may be affected by Human Rights issues e.g. requirements to make patented medicines available in less developed countries.

Function	Derive confidence from ...	Be concerned if ...
Strategy and planning	Clear corporate guidelines on such as indigenous rights or armed security have been established Implications of all issues for business objectives have been assessed	Associated companies / business units have no human rights policies Employees are unaware of how to translate guidelines in practice
Investor Relations	Investors satisfied with assurance provided to them on approaches to HR Company has a process to identify requirements of new and potential investors	No current dialogue with investors on human rights performance Limited ability to provide a response to investors on human rights policy and approaches
Sales and marketing	Company acknowledges risks and benefits of HR performance in relation to brand value, competitive advantage or product success (e.g. potential boycotts or reputational kudos)	Sales personnel unaware of potential consumer requirements and how to respond
Information management	Internal information on performance relating to human rights part of standard reporting pack	Poor or no information available to management on human rights performance
Internal audit	Guidelines on such as facilitation payments in place and checked	
Research and development	R&D strategy has considered long term risks and opportunities for product-related HR issues (e.g. patenting indigenous resources)	R&D strategy has considered human rights issues relating to use of product
Logistics	Procedures exist to identify and manage local community issues	No awareness of potential issues
Purchasing	Programme exists to improve human rights performance of suppliers Codes of conduct for suppliers has been developed and is monitored (e.g. child labour)	No monitoring of suppliers takes place Company sources from high risk territories
Production	Procedures exist to identify and manage local community issues	No awareness or procedures to identify and manage local community issues
Communications	Public reporting anticipates strategic issues such as operations within conflict zones	Communication plan covers financial performance only
Human Resources	Policies and processes support anti-discrimination and take account of cultural differences Freedom of association enabled through union recognition or alternative mechanisms	HR policies respond to legal minimum requirements and do not attempt to address broader informal accountabilities