

GETTING THE ISSUES

Sustainability needs to use language and a framework that resonates with the business world – and information is key. **Grant Murgatroyd**

‘When you talk to business people, you have to grab their attention. “Asset derecognition” is not going to get anyone excited, but they will be excited about what they can take off their balance sheet,’ says Robert Hodgkinson, ICAEW’s executive director, technical.

‘We are increasingly finding it is best not to talk about “sustainability” because it is not something people recognise as a business issue. If you talk about process management, cutting out waste, using less energy or being more efficient, then people get it.’

In business terms, sustainability is about being able to operate and generate profits in the future. Will an owner-manager have a business to pass on to the next generation? Will a plc be able to create shareholder value long-term? Will an organisation be able to recruit and retain the brightest and best talent? Companies of all shapes and sizes want to present themselves to customers and other stakeholders as being responsible corporate citizens.

‘Where companies are making promises, portraying themselves as doing certain things, people want evidence, measurement and accountability in the broad sense,’ says Richard Spencer, head of sustainability at ICAEW. ‘Accountants need to “get” these issues, because new ideas have to go through filters before they are taken up, and most business goes through the accounts filter. If there are considerations coming into business decisions that accountants are blind to, then either accounting becomes irrelevant or sustainability is screened out.’

ICAEW chief executive Michael Izza is a member of the International Integrated Reporting Committee, which published *Towards Integrated Reporting: Communicating Value in the 21st Century* in September. Hodgkinson says: ‘Reporting should present the business in a way that shows it as being sustainable in the long term in tangible terms, that it is not going to fall off a cliff. Financial reporting may be criticised for being too narrow, but it has the property that if you are not doing well financially, you will be found out. Integrated reporting has to be

capable of highlighting areas for improvement and a genuine mechanism for accountability.’

ACCOUNTANTS IN THE FRAME

Accountants will need training to understand how environmental, social and financial factors link into business performance, but the profession has a long history of extending the scope of its activities without becoming engineers, technologists or social scientists. ‘Accountants have to understand the language and be able to talk to specialists without having the wool pulled over their eyes, but they do not have to claim to be experts where they are not,’ says Hodgkinson.

Potential areas where accountants would be involved include: implementing energy efficiency measures; formulating and implementing corporate responsibility policies; designing management information systems; and assurance of supply chain processes and procedures. ICAEW’s Business Sustainability Programme is an e-learning programme covering corporate responsibility and the issues facing companies in becoming sustainable.

ICAEW is working with the World Wildlife Fund to seek answers to the question: what would a financial system that drove sustainable outcomes look like? It has governmental support for its work with the United Nations Environment Programme on the successor to TEEB, the Economics of Ecosystems & Biodiversity.

A third work-stream is examining the relationship between economics, sustainability and accounting in areas such as the transition to a green economy, measurements of national progress and policy tools such as what would make a good green tax.

‘If you are going to use policy measures to bring about more sustainable outcomes, then you have to do it through accounting language and systems because people in business do not work through fundamental economics – they work through what their information systems tell them,’ says Hodgkinson.

To find out more about ICAEW initiatives on sustainability, visit www.icaew.com/sustainability

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*Richard Spencer,
ICAEW head of
sustainability*

WATER, WATER EVERYWHERE...

Water scarcity is a greater threat to business than any other natural resource. But few companies think about the risks. **Grant Murgatroyd**



A third of the world's population faces water shortages. Every day 4,400 children die because of unclean water and unsanitary conditions. The problem is getting worse. The UN says that if current trends in climate change, population growth, rural to urban migration and consumption continue, two-thirds of the world's population will not have access to enough water. In a business-as-usual scenario, global demand for water will outstrip supply by 40% by 2030.

There is a perception that shortages mostly affect developing nations, but increasingly developed nations are feeling the effects. The United Nations *World Water Development Report 2009* says that water shortages are already constraining economic growth in California, China, Australia and India.

'The era of cheap and easy access to water for companies is coming to an end,' says Randeep Sanghera, lead water analyst at research firm EIRIS. 'This poses a potentially greater threat to business than the loss of any other natural resource, including oil, yet the majority of companies and investors remain unaware of the risks they face.'

EIRIS analysed 2,000 global companies and found that 54% faced water risks, yet just 0.22% have adequate management systems, policies and reporting mechanisms in place to tackle the risks. Water-intensive sectors such as oil and gas, mining, power generators, semi-conductor plants, retail chains and agriculture are particularly exposed.

'Are companies interested? It depends on where they sit,' says Martin Roberts, development director at the University of Cambridge Programme for Sustainability Leadership. 'If you were a company that had invested in tomato plants in South Australia and were hit by the Water Act then yes, you are interested. It's a question of materiality.' The 2007 Act initiated the development of a 'Basin Plan', that imposed legal limits on the amount of water that can be taken from the Murray-Darling Basin, Australia's most fertile farming region.

'Water risks can be of a physical, regulatory, or

reputational nature, and they affect companies through disruption of operations, higher costs for accessing and treating waste water and/or through constraints to growth,' says Kyung-Ah Park, managing director and head of the environmental markets group at Goldman Sachs. 'Though disclosure efforts are underway, no standard exists yet to account for these risks for companies and their suppliers. Consequently, investors cannot assess whether the water use by a certain company and its suppliers is problematic.

REPUTATIONAL RISK

Water is a critical resource for beverage giant Coca-Cola, which used 294bn litres of it in 2010. In 2003, the company became embroiled in a controversy in the Indian state of Kerala, where a bottling plant was accused of using up groundwater. Coca-Cola lost its licence to operate in the state, though it was later re-instated, and suffered extensive damage to its reputation.

In 2008, Coca-Cola put in place a goal to reduce water use globally by 20% by 2012, a target it is on track to hit. 'Water is the lifeblood of our business,' says Joe Rozza, global water resource sustainability manager at Coca-Cola in Atlanta, Georgia. 'When we are given the



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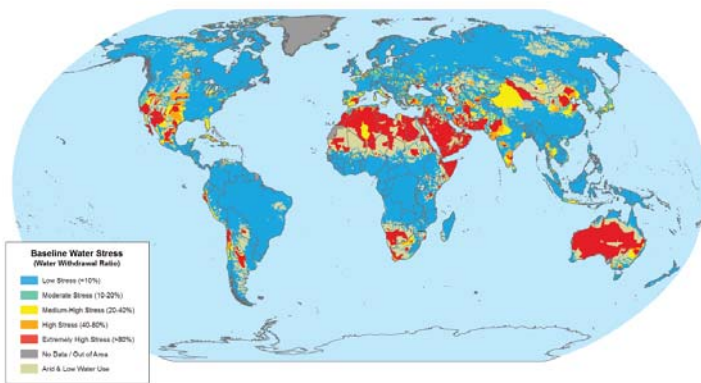
opportunity to tell our water stewardship story, people are amazed at how deeply intertwined water sustainability is in our mainline strategy.'

Working with communities, governments and non-governmental organisations is at the heart of that strategy. The company has 385 community water partnerships in 90 countries, aiming to produce water benefits to balance its global production volume. It also developed a geo-spatial database to map water scarcity and stress, and donated the proprietary research tool to the World Resources Institute, to make the information widely available and 'help strategic decision makers make more informed decisions around future and current challenges around water' (see box below).

IMPACT ASSESSMENT

Companies are increasingly reporting on the environmental impact of their operations. Brewer Adnams, which is based in Suffolk, has worked with the University of East Anglia to develop a system to measure its resource consumption, which includes carbon emissions and water usage and will soon be expanded to include social impact. The company developed a bespoke system because there were no off-the-

WATER: MEASURING RISK



Water is the most abundant compound on Earth, covering 71% of the planet's surface. Only 2.5% of the volume is fresh water and 98.8% of that is in ice and groundwater, with just 0.3% in rivers, lakes and the atmosphere. But it is an increasingly scarce commodity.

If water resources are to be managed, they first need to be measured. Groundwater, which accounts for 1.7% of total water volume, shows how difficult this can be. The cost and difficulty of withdrawing water from an underground aquifer does not always increase steadily as the aquifer is depleted, so a clear signal of increasing scarcity is not sent to the market. NASA's GRACE Project (Gravity Recovery & Climate Experiment) is attempting to measure groundwater by monitoring changes in the Earth's gravitational field.

The World Resources Institute, a Washington-based

environmental think tank, is developing water maps to help governments, policymakers, communities and corporations assess water risks. 'Leading businesses in water-intensive sectors, such as power generation or food and beverage, have already begun to deal with the risks on a plant-by-plant basis,' says Kirsty Jenkinson, director of the Enterprise & Markets Program at the WRI. 'Now companies are beginning to think more strategically about water risk, such as how it might affect their supply chains.'

The WRI has developed Aqueduct, a mapping system that will allow users to put their own consumption in context with availability, the needs of other users, and other factors that create risk around water. The maps measure water stress, which takes into account not only how much water is physically available to start, but also how much water is used in a given area.

'If you are operating in a water basin that has a lot of agricultural withdrawals but that agriculture is inefficient, rather than mitigating risk by spending millions of dollars improving your own efficiency for the tiny allocation that you have, it might be more effective to invest in local agriculture, helping farmers improve irrigation technology that will increase yields and free up water in the basin for other uses,' says Robert Kimball at the WRI.

Find out more at www.wri.org/aqueduct

shelf alternatives, but expects to move to a standardised system over the next couple of years, which would allow it to measure its performance against other companies.

The role of measuring and auditing environmental impact is one that naturally falls under the accountants' umbrella. 'Accountants need to understand environmental, social and governance issues,' says Andy Wood, chief executive of Adnams. 'The danger of having marketers doing it is that it becomes a marketing exercise, rather than something that is assiduously measured and accountants have the facility to do that. I would like to see accountancy standards move on so that they capture these important issues and they become part of a suite of reports that companies put out.'

ON THE INVESTMENT RADAR

For their part, investors are only just beginning to wake up to the impact of water risk. 'Water is often heavily subsidised, particularly for industry and agriculture, and its direct cost is unlikely to be a significant item on a company's p&l. However, its financial impact can be real for companies in water-intensive sectors,' investment bank UBS said in an April 2011 report, *Water Risks to Business*.

Some investors are looking to directly profit from investment in water-related companies, water itself and water-intensive sectors such as agriculture. 'We're getting really worried about water availability and land grabs,' says Deborah Doane, director of the World Development Movement. 'We are seeing agribusinesses buying up stretches of land because they have water availability, while hedge funds are buying up water-rich land on the basis that prices will rise because of increased demand for water and arable land.'

In general, companies are not having to deal with water-specific queries from their investors, though they are reporting on the subject to organisations that focus on environmental issues for the investment community, such as Ceres and EIRIS. 'Energy is a huge issue for the investor community because of the cost. Investors appreciate it because it has a big impact on the financial picture of our operations. Water is not in the same realm at this point,' says Robert Reich, manager, global environmental stewardship, at DuPont. 'Traditionally water has been seen as free because it is all around us, but there is a growing recognition that water is as valuable as energy, so we have to prepare ourselves for when that time comes.'

ICAEW and Hull University Business School are running a seminar series, 'Responsible Leadership for a Complex World', over the coming months in Hull (23 November and 19 January) and London (7 February and 27 March). Leading figures from Warwick Business School, Royal Holloway, IBM and the Eden Project will lead discussions and encourage sharing of best practice. Find out more at www.icaew.com/sustainability

CASE STUDY: ADNAMS



Andy Wood (L) in Adnams' state of the art brewery in Southwold

Suffolk brewer Adnams knows a thing or two about sustainability – customers have enjoyed its beer for almost 140 years. But it was around 2000 that it started to look at 'sustainability' in the modern sense, formally incorporating environmental and social issues in its decision-making process.

'We have looked to embed 'doing the right thing' in our business,' says chief executive Andy Wood. 'When we produce our annual report and accounts, it doesn't have a separate corporate responsibility report – "doing the right thing" runs through the narrative.'

Wood says there is no conflict between this and making a profit. 'We took a long-term view for fossil fuels prices and saw that businesses that were polluting were also going to have to pay for the privilege. If we can stop using so much

fossil fuels and stop throwing stuff away, that was going to be good for our cost base in the long term, even if there is a capital cost upfront.'

Water is a key raw material and Adnams' state of the art brewery in Southwold is in a water-depleted area, but its position at the centre of the local community means moving somewhere wetter is not an option. Through efficiency measures such as capturing and recycling heat and steam, the brewery uses 3.1-3.2 pints of water to make a pint of beer, half the industry average. At the new distribution centre, grey water is filtered through naturally occurring reed beds and used to water the grass roof, wash lorries and flush toilets. 'We're a business that uses a lot of water, so the less we can use, the more cost-effective it is,' says Wood.

Waste from the brewery and other local businesses are processed through a new anaerobic digestion facility to generate biomethane, which is injected into the gas grid and will ultimately run the commercial vehicle fleet. Adnams ditched patio heaters from its hotels, and instead customers are kept snug on chilly evenings with blankets made from textile industry off-cuts. 'Customers are very supportive, and like the slightly quirky approach,' says Wood. 'Our investments are returning at the required rate of return, but more important is building a body of support from our customers – we are seen by them as a business that can be trusted – because without them we don't have a business.'

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