

Business reputation at stake

Climate change is affecting the lives of people the world over. **Jeff Gardner** and **Fred Cohen** find that business leaders are waking up to the fact that a sound environmental strategy is needed if they are to stay on top of the challenges



Investing time and resources in sustainability and climate change initiatives creates value to the business in the short term. Some companies already understand that with careful planning they can be both high performers and environmentally responsible and that the opportunities and rewards outweigh the cost and effort of their investment over both the short and long term.

Leading companies are already building comprehensive climate-change strategies tied to their business strategies that are designed to help them mitigate the financial and reputational risks, as well as pursue the emerging opportunities and reap the rewards. The opportunities in the emerging carbon-constrained global economy are very real with carbon-related finance, products and services – the global carbon trading market could be worth \$1 trillion by 2012.

There is no doubt that rising energy costs weigh heavy on the minds of business leaders and many companies will start their climate change efforts by focusing on reducing their energy consumption and costs through key energy-saving strategies, from turning down heating to insulating buildings and encouraging video conferencing, rather than air travel. According to PricewaterhouseCoopers' *11th Annual Global CEO Survey*, 64% of corporate CEOs say they are "somewhat concerned" or "extremely concerned" about rising energy costs.

Employees are influencing companies' environmental strategies. Increasingly, they want assurance that their employer has a sound sustainability agenda. A recent PwC survey of college graduates found that 90% of US respondents said they would actively seek employment at companies whose business practices reflect their own

values. Leading companies are recognising that corporate environmental behaviour is affecting their ability to attract and retain employees so they are incorporating ongoing communications about climate change initiatives into their people strategies.

The communications priority

In today's world it is critical that companies safeguard their reputations through effective communications with all their stakeholders about their environmental and social risks and performance and their impact on financial performance. The Economist Intelligence Unit predicts that this will be a leading priority for companies in the next five years. 61% of global organisations surveyed by the EIU this year agree that it is in their best interests to proactively communicate with stakeholders about their environmental and social performance.

Stakeholders are scrutinising what a company is reporting and looking at whether the information is valid. When it comes to reporting on risks, companies need to disclose realistic potential risks but avoid overstating them. Overstating the company's environmental credentials (or 'greenwashing') is also something to avoid – it usually diminishes the company in the eyes of stakeholders.

Successful reporting of non-financial information relies on ensuring that reporting aligns with the company's overall corporate strategy; is within the management reporting framework; and is credible and defensible. If this information is not appropriately integrated, it can be seen as a PR exercise and lead to complaints from stakeholders that it is incomplete, unbalanced and not sufficiently forward looking.

There is no single recognised framework for reporting environmental responsibility. However, some acceptable reporting frameworks and best practices are beginning to emerge.

- **Clear alignment to corporate strategy**
Clear explanation of why responsible and sustainable development of corporate resources is fundamental to the company's overall strategy. Reporting highlights challenges, focusing on the impact of legislation, regulation, and other market activities on the company's performance.
- **Long-term targets and measurement of performance**
Clear link established between long-term strategic priorities and environmental, social, and governance (ESG)-related key performance indicators goes a long way toward addressing the needs of key stakeholders.
- **Transparent reporting against ESG milestones**
Base-case scenario used to maintain like for like comparisons and determine a company's progress in meeting its ESG goals.
- **Quantification in terms of ESG reporting**
Reports include net savings from enhanced sustainability efforts, benchmarking analysis, and use of appropriate metrics.

59% of executives believe investors and shareholders will increasingly reward those companies with above average performance on sustainability issues, according to PwC's CEO survey. So keeping quiet and doing nothing about sustainability and climate change isn't really an option. Companies need to take action to manage their risks, make the most of the opportunities and make sure their stakeholders understand what they are doing and why.

It is no coincidence that 56% of very large companies (with revenues of over \$20bn) are already committing significant resources to climate-related issues. From our perspective, a correlation already appears to exist between corporate action and share-price performance. Adapting to our global resource constraints can actually improve a company's financial performance.

Managing climate change risk

- Have you measured and monitored the company's carbon footprint?
- Are you using an independent verification to communicate greenhouse gas emissions?
- Can you forecast the company's greenhouse gas emissions growth for benchmarking purposes and to establish target reductions?
- Are you creating an emissions management team led by a senior executive to set the tone and culture from the top?
- Are you monitoring competitors' climate change responses?

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CLIMATE CHANGE

Next stop on road to Copenhagen

The 'Bali roadmap' sets an agenda for international negotiations aimed at finalising a new global climate treaty. Several thousand people, including senior government representatives, will gather in the Polish city of Poznań in early December to discuss their vision for how to tackle climate change. On the agenda are emission reductions and a greater level of action around mitigation, adaptation, technology and finance. The conference will also tackle the subject of risk management and risk-reduction strategies.

This meeting is regarded as an important stepping stone towards the UN Climate Change Conference in 2009, where the Conference of Parties (COP) attendees (potentially from 192 countries) will endeavour to reach specific agreements aimed at protecting the environment once the first phase of the UN's Kyoto Protocol expires in 2012.

Key areas for discussion in Poznań will include:

Long-term and interim targets: agreement is needed in both areas. A global, long-term target (such as 2050) sets the overall level of ambition and needs to be driven by scientific consensus on expected carbon concentrations

and their likely effects. Interim targets provide a path towards the overall goal and assist business in framing investment decisions.

Measures for developed countries: industrialised nations will need to show leadership in taking on new, binding, carbon commitments. In 2007, developed countries decided to use a 25-40% reduction range (by 2020) as guidance, but this in itself is a wide range. A crucial factor here will be the extent to which emission reductions need to be achieved 'at home' rather than through the purchase of carbon credits from developing economies.

Measures for developing countries: effective participation by developing countries is crucial if real action on climate change is to occur. Binding targets are not on the agenda, but some form of agreed action plans supported by collaborative initiatives (financial and technology transfer) and access to global carbon markets are likely to emerge.

Technology and finance for sustainable development: technology is a critical factor in achieving carbon targets. A sufficiently long horizon for the price of carbon should provide a stimulus to develop technology. The Poznań discussions will also consider how effective multilateral co-operation can be in transferring technology to developing countries.