

# Accountants to take lead role in sustainability efforts

Certified Management Accountants (CMAs) are well placed to provide a significant contribution to sustainable development, and how to incorporate it into strategic planning, implementation, and evaluation and control in their organization.

By Stathis Gould and Todd Scaletta, FCMA

**C**ertified Management Accountants (CMAs) are well positioned to take a lead role within their organization to integrate sustainability issues in their strategic formulation, strategic implementation, and evaluation and control processes. The combination of the CMA Competency Map and the new Sustainability Framework (<http://web.ifac.org/sustainability-framework>) developed by the Committee of International Federation of Accountants Committee (IFAC) can allow CMAs to be influencers of change in this emerging field.

Sustainability can be viewed as a three legged stool – it involves three key issues: (i) economic, (ii) environmental and (iii) social. Trade-offs can be required when managing these three issues. However, a good business case can be made for being economically viable while protecting the environment and operating in a socially responsible manner. Creative problem-solving and a well-rounded business knowledge are keys to being able to add value to shareholders when dealing with what may initially be viewed as opposing dimensions of economic viability; environmental stewardship and social responsibility.

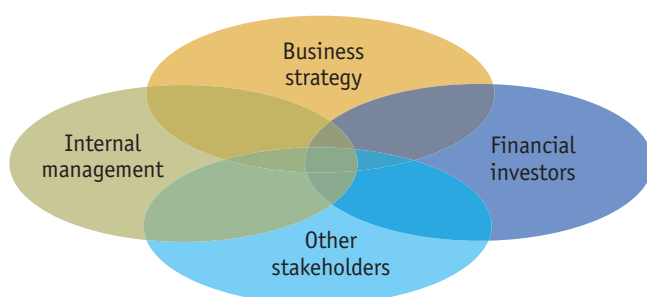
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So why is it important for organizations to take initiative on sustainability issues? The key drivers can be divided into two contexts: political and organizational.

## The political context

Canada and the U.S. are in a new era of discussing what can be done to protect the environment in North America. Prime Minister Stephen Harper and U.S. President Barack Obama had the environment as one of their main topics of discussion at their first meeting together in Canada. Their discussions included matching the U.S. and Canada's environmental rules, and the possibility of a continental cap-

**Figure 1 – IFAC Sustainability Framework**



and-trade system as a tool to meet climate change reduction targets. In the U.S., President Obama promises to be environmentally focused by pursuing energy policy goals to promote alternative energy, reduce greenhouse gas emissions, and improve energy efficiency. The first step in this direction was the American Recovery and Reinvestment Act (ARRA) or better known as the stimulus bill.

### The organizational context

The strength and focus of a sustainable development business case will vary across organizations. Many different business cases exist for managing sustainability issues, and these will be organization/industry-specific. Therefore, approaches depend on the business operations that are pursued, the markets in which an organization is active, the country of origin, and the size of an organization. For example, the oil industry has a different set of sustainability issues and potential responses to deal with than the financial services industry. However, most, if not all, organizations will have opportunities to better manage social and/or environmental issues. This is best epitomized in a quote by Ray Anderson, founder and chairman of Interface: "I always make the business case for sustainability. It's so compelling. Our costs are down, not up. Our products are the best they have ever been. Our people are motivated by a shared higher purpose — esprit de corps to die for. And the goodwill in the marketplace — it's just been astonishing."

<http://www.nytimes.com/2007/05/22/science/earth/22ander.html>

## Given the CMA Competency Map, CMAs are positioned to take a lead role in sustainability efforts for organizations.

Developing and reviewing a business case over time involves a systematic process covering several practical steps, including (a) understanding an organization's significant impacts on the environment, society, and the economy, the related opportunities and risks, and (b) identifying stakeholder issues. Please see more information on key considerations at <http://web.ifac.org/sustainability-framework/bsp-the-business-case>.

### Key questions

Organizations need to consider five key questions on how to make sustainability part of their strategic formulation, strategic implementation, and evaluation and control process. Each response to the five key questions will include a demonstration on how CMAs' competencies can help address the specific question as well as how the IFAC Sustainability Framework can be used as a resource.

### Strategic formulation – A key question to consider is:

1. *How is the organization integrating sustainability in its strategic management?*

- **Identify the business case:** CMAs can assist in formulating strategy by setting strategic direction through the design of a value proposition that takes advantage of the organization's strengths and opportunities while mitigating its weaknesses and avoiding external threats. The strength and focus of a sustainable development business case will vary across organizations. Where an organization has an apathetic stance towards sustainability issues, a CMA's initial role might be to establish the business case for being more responsive. The business case can cover the three key areas of sustainability: (a) depleting natural resources (energy and water) and the need to demonstrate that the business is responding to changes in customer expectations on the environment, and the need to consider reducing energy consumption, (b) social issues influence both the organization's ability to attract talent, and social performance directly contributes to customer perceptions and satisfaction, and productivity, and (c) investors (particularly institutional investors) are increasingly including environmental and social performance (and governance) factors in their financial assessment of a company's current and potential performance.
- **Relate the business case to stakeholder engagement and risk management activities:** CMAs need to be able to evaluate the organization's strategies from a risk management perspective. Establishing a coherent business case depends on identifying the key sustainability related pressures and expectations on an

organization, considering the sustainability issues created by the way an organization operates, and the benefits of dealing with these issues and the risks of failure. Organizations with highly developed stakeholder engagement tend to be better at anticipating issues and dealing with them proactively. They are then in a position to report on how they have dealt (or not as the case may be) with stakeholders' interests and expectations.

**CMA's can assist in the management of the revenue stream, including the use of internal and external sources of information, in order to achieve the organization's chosen value proposition.**

- **Analyze any strategic trade-offs presented by sustainability issues:** CMAs must be able to align the organization's resources and success factors to ensure accomplishment of the strategy. Some companies will have a conflict between the pressure of short-term business performance and sustainability. For example, for Kingfisher plc, ([http://www.ifac.org/Members/DownLoads/Theme\\_Booklet\\_Sustainability.pdf](http://www.ifac.org/Members/DownLoads/Theme_Booklet_Sustainability.pdf)) tropical timber products from sustainable sources can be more expensive than those from non-sustainable sources. Well managed forests harvest fewer trees each year which can reduce their income so there are only limited supplies of Forest Stewardship Council certified timber. This can then translate into higher prices. Therefore, it is important to consider how to differentiate products, and whether their sustainability can command a higher consumer pricing. It is often critical to overall strategic success over the long-term to pragmatically deal with the trade-offs between stakeholder expectations. A possible approach to meet the challenge is to adopt an enlightened form of value maximization that deals with sustainability issues, but recognizes that value cannot always be maximized in more than one dimension. However, the long-term

market value of an organization cannot be achieved if an important constituency is ignored or mistreated. For more information, see the Stakeholder Engagement, The Business Case and Integration with Risk Management sections of IFAC Sustainability Framework and the CMA Competency Map Sections (i) F1 – Strategic Management and (ii) F2 – Risk Management and Governance.

**Strategic implementation — some key questions to consider are:**

2. *Have we visibly demonstrated the leadership required to integrate sustainability in the way we do business and to deal with any attitudinal and cultural barriers?*

- **Develop policies that support the integration of sustainability initiatives:** CMAs as problem solvers need to take an analytical approach to decision making using their capacity for innovative and integrative thinking connecting “parts” to the “whole.” An example is both leadership and envisioning complement organizational sustainability policies as a mechanism for embedding sustainability values and principles, and integrating these at a strategic and operational level. For example, an environmental policy could detail (a) the organization's compliance with laws and regulation, (b) its own view on the importance of environmental performance to its business operations, and (c) its environmental impacts and initiatives to reduce it, such as investing in renewable energy, modifying product design, or improving manufacturing.
- **Engage ownership at the top to integrate sustainability:** CMAs have the opportunity to use their leadership skills in their organization to collaborate, influence, convince and lead change. Integration of sustainable development into the way an organization manages itself requires ownership at the governing body level (the board). Ideally, the chief executive officer champions (a) the integration of sustainability into strategic discussions and subsequent follow-up, and (b) specific sustainability initiatives. This helps to ensure that sustainable development is

approached more from a performance-based perspective rather than (only) a compliance-based perspective and properly treated as an important strategic issue that forms an integral part of the board's efforts to secure long-term value generation for stakeholders.

- **Understand how values guide behaviours and decisions:** CMAs, as professionals, must adhere to the CMA Code of Conduct and the highest ethical standards. Leading by example positions CMAs to be effective in evaluating and recommending a values-based program and code of conduct to promote (a) an organization's underlying values, (b) commitment to employees, (c) standards for doing business, and (d) its relationship with wider society. Organizational codes of conduct and values are extremely important, and many companies have demonstrated leadership and positive change through developing and implementing values-based codes. For more information, see the Leadership and Vision section of IFAC Sustainability Framework and the CMA Competency Map Sections (i) E1 — Problem Solving and Decision Making, (ii) E2 — Leadership and Group Dynamics, and (iii) E3 — Professionalism and Ethical Behaviour.

*3. Has sustainability been incorporated into discussions around the organization's competitive positioning in the market so to identify (a) the potential revenue growth from new or differentiated products and services and (b) cost reduction and efficiency improvements?*

- **Change risk to opportunity:** CMAs can assist in the management of the revenue stream, including the use of internal and external sources of information, in order to achieve the organization's chosen value proposition. In addition to securing the trust of society and customers, sustainability issues often present opportunities. Therefore, planning discussions at board and senior management level should involve considering the upside of improving sustainability performance with new products and services. For example, General Electric generated revenues of around \$17 billion in 2008 from products and services relating to its Ecomagination initiative. Cutting costs through better resource efficiency and minimizing waste can also be immediate

performance enhancing activities. Those businesses that make positive changes to reduce their environmental impact and reduce costs will be better equipped to survive and thrive during the current downturn.

- **Identify a range of competitive strategies:** CMAs have the training and ability to analyze financial risk to maximize opportunities and mitigate threats by assessing financial risk in the external environment, identifying and evaluating operational funding requirements, and developing and recommending strategic financial plans and forecasts.
  - Is there a path to first mover advantage? For example, Toyota's market share with its hybrid car, The Prius. Taking an early lead position in the market typically arises from having the appropriate mechanisms for providing industry insights and social and economic trends. To effectively engage and connect to environmental and social issues, organizations need an appropriate analysis of an organization and its interface with sustainability and sustainable development issues. This involves identifying and understanding relevant issues by establishing facts and other information available in the public domain, and from an analysis of the competitive environment.
  - Can we collaborate in partnership with NGOs, supply chain partners, competitors, distributors to develop opportunities for improving sustainability performance and enhancing customer satisfaction? Collaboration can work well for retailers and their supply chain partners. For example, Marks and Spencer, GAP, Nike and Victoria's Secret are (partly) supplied by the garment manufacturer MAS in Sri Lanka. MAS is recognized for working with its retail partners to establish factories in rural communities and to invest in their social development. Organizations can also collaborate at an industry level to establish voluntary codes of conduct (effectively self-regulation on sustainability issues).
  - How do we respond to emerging trends and pressures on our business and to emerging and new legislation, including the development of market mechanisms such

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as emissions trading schemes? Some pressures and environmental shifts occur through supply chains. For example, some suppliers to food retailers are being challenged to provide new forms of packaging that is more sustainable (but can be more expensive to produce). Emissions trading and legislation, such as European Community Directive on Waste Electrical and Electronic Equipment, and government policy, can all create opportunities and challenges and these should be considered and priorities for action identified. In many countries, capital allowances have been introduced to enable businesses to writeoff the capital cost of purchasing greener plant and machinery, against their taxable profits. They take the place of depreciation charged in commercial accounts. For more information, see Part A of the IFAC Sustainability Framework, Business Strategy, and the Energy Efficiency and Waste Minimization section and the CMA Competency Map Sections (i) F3 — Performance Management and (ii) F5 — Financial Management.

### Evaluation and control – some key questions to consider are:

4. *Does the existing performance measurement framework, or KPIs used to measure organizational performance include measures to indicate achievement against sustainability objectives and therefore wider sustainability performance?*

- **Identify a broader set of measures of performance:** The very essence of being a CMA is having the ability to establish appropriate financial and non-financial performance metrics in relation to the organization's strategic and operational goals. Sustainability performance measures and KPIs help organizations to establish progress against sustainability goals and to ensure that they have considered their environmental, social, and economic impacts. It is impossible to pick measures and KPIs off the shelf as their identification and selection is specific to the context of an organization and its industry. However, there are many useful sources of guidance on selecting and using performance measures and KPIs and these are highlighted in IFAC's Sustainability Framework along with a list of widely used KPIs that have been taken from

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selection of sustainability reports. Before settling on metrics and KPIs, it is necessary to understand how they are best used and incorporated into internal management, and therefore how they can help to support better external reporting.

- **Deal and measure sustainability issues where they have been identified as an important driver of strategy:** Another key component of the CMA competency set is the ability to align the organization's resources and success factors to ensure accomplishment of the chosen strategy. Some organizations have modified their performance measurement frameworks to ensure the prominent featuring of social and environmental issues, for example by adapting a balanced scorecard to include sustainability performance indicators. However, accountability for performance against strategic objectives, including sustainable performance, requires an understanding of the causal relationships between the various actions that can be taken, and their impact on financial and non-financial performance. Organizations making a specific business case for a sustainability strategy and objectives will also rely on effective measurement to understand the resulting impact on the organization and society. Therefore, measures and KPIs and the way they are presented can usefully be used to internally and externally report on those strategies and objectives. For more information, see the Performance Evaluation and Measurement and Sustainability Performance Metrics and KPIs sections of IFAC Sustainability Framework and the CMA Competency Map Sections (i) F1 — Strategic Management and (ii) F4 — Performance Measurement.

5. *Has the organization got in place appropriate management system(s) to support the delivery of sustainability objectives?*

- **Consider a sustainability or (environmental) management system to complement an internal control system:** The CMA Competency Map

refers to the CMA's ability to evaluate and implement internal controls from a risk management perspective. Developing such a system can help an organization to define its sustainability objectives, and ensure their alignment to business objectives, identify sustainability challenges, risks, and opportunities, and ensure that management and operational practices respond to these challenges, risks, and opportunities.

- Develop an appropriate and effective internal control system: CMAs must possess the ability to develop, implement and assess an appropriate risk management strategy and accompanying internal control system while taking into account the risk profile of their organization.
  - Ensure effective internal controls that depend on effective governance and risk management: governance, risk management and internal control are all important instruments in achieving sustainability objectives. However, the process of risk management and internal control are usually more effective when embedded into a governance process which has yielded clear leadership, goals and targets, accountability and systematic stakeholder engagement.
  - Establish a sustainability management system that can effectively incorporate the organization's overall internal control and management system: Some organizations have felt it important to merge management systems. For example, Sharp's 2007 Social and Environmental report describes their efforts to create accuracy and efficiency with an integrated management system by merging its strategic management system, environmental management system and quality management system. The integrated system operates as part of the strategic management system. An integrated internal control framework such as COSO's Internal Control Framework will help organizations to deliver on both business and sustainability objectives, and to ensure reliable internal and external reporting.

- Move from a conformance- to performance-based view of accounting for sustainability impacts: A key functional competency for CMAs is the ability to evaluate their organization's financial reporting system and assess improvement strategies. Recognizing and measuring the external impact of environmental and social costs and benefits can help to manage an organization's wider impact on society and the environment. A conventional accounting system will typically recognize direct social and environmental liabilities that usually arise from legal and regulatory requirements (such as disability and flexible working time requirements, landfill costs, and other environmental levies, legal and due diligence fees, and any fines and remediation costs), because these costs need to be measured for external reporting and compliance purposes (and therefore will be reflected in company accounts). However, sustainability accounting calls for organizations to consider the cost or benefit of its products, services, and operations (which are not mandated by law or regulation) outside the boundaries of the organization. For example, although a transport organization pays for the fuel required to support its fleet of vehicles, the effect of the resulting greenhouse gas emissions are felt by future society. For more information, see The Integrated Management Systems and Improving Information Flows to Support Decisions sections of IFAC Sustainability Framework and the CMA Competency Map Sections (i) F2 — Risk Management and Governance and (ii) F6 — Financial Reporting.

Sustainability is a complex issue with no easy solutions; however, CMAs' training, which takes an integrative perspective to problem solving, along with the use of IFAC's Sustainability Framework can position members to take a lead role on this critical issue within their organization. ■

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