

# Sustainable production

**Aidan Turnbull** of consultant Environ sets out a practical framework for business action

**E**nsuring that your business development strategy is aligned with government policy and frameworks is an important aspect of continued business success – it pays to know which way the winds of change are blowing.

Although the government's *Framework on Sustainable Consumption and Production* does not contain any targets, DEFRA officials believe that it has made important inroads into Treasury policy and achieved consensus across Whitehall on indicators that will inevitably lead to targets in the longer term. The framework contains several policy objectives which could impact on business:

- ◆ Decoupling economic growth and environmental degradation;
- ◆ Focusing policy on the most important environmental impacts associated with particular resource use;
- ◆ Increasing productivity of material and energy use; and
- ◆ Encouraging and enabling informed consumers who practice sustainable consumption.

For many businesses, these policy objectives are at too high a level for them to engage with. Instead, the DTI's *Sustainable Development Strategy* provides a valuable

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insight into how the framework translates into pressures on business. The strategy focuses on improving resource productivity to increase materials and energy efficiency and reduce greenhouse gas emissions and waste generation, while encouraging greater corporate social responsibility through stakeholder consultation and environmental and social reporting.

It views the environment as a mainstream business issue and highlights improving resource productivity as an overriding priority for future competitiveness of the UK economy. Improving resource productivity – how 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.

### A practical framework

Environ has developed a practical framework for business action which enables companies to align their business development strategies with these current and future

government pressures. Most companies are familiar with the environmental management system (EMS) approach and the current debate over the value of ISO14001 certification.

Many put considerable effort into gaining the certificate, but having established the system, could gain significant business benefits by making better use of their EMS to drive business improvement programmes.

The key to achieving these business benefits is to hardwire the EMS into the company's cost accounting system and ensure that the company accountant plays an active role in setting and measuring environmental objectives and targets.

Environmental management accounting guidelines published last year by the government's Envirowise programme highlight that firms using this approach can expect average cost savings of 1-3% of annual turnover.

### Identifying, analysing and managing costs

Environmental management accounting focuses on environmental operating costs and involves identifying, analysing, managing and reducing them in a way that can benefit both the business and the environment. 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.

Several case studies 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 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.

### Protecting and improving reputation

Environmental management accounting techniques can also assist a company to report publicly on its environmental policy and performance by publishing trend data on physical quantities and costs to show how it is meeting its improvement targets. This can protect or improve a company's reputation and aid communication with a wide variety of stakeholders.

Demonstrating concern about environmental issues can differentiate the company from the competition and attract customers and investors. Reporting can also enhance the company's reputation as a responsible employer, improving staff recruitment and supplier retention.

Although significant environmental cost savings can often be made through no-cost and low-cost resource efficiency measures, other improvement projects can require new technologies and process adjustments with medium or high cost implications. These can include:

- ◆ Designing cleaner products – incorporating environmental considerations into design can reduce materials and utilities consumption and increase functionality.
- ◆ Optimising processes – changing the process flow or reducing variability to make the process more efficient.
- ◆ Using new technology – new, cleaner equipment can increase process efficiency, reduce material and utility costs and make the company more competitive.
- ◆ Recovering and reusing materials – segregating waste streams allows greater recovery, re-use or recycling of materials and by-products.

As with all capital expenditure, appropriate financial justification needs to be made and options need to be reviewed. For environmental projects, however, the costs and savings can arise from a wide range of factors. If these are not considered, the payback period can be overestimated, making environmental projects appear less commercially attractive than they really are.

The list of environmental factors will continue to increase – for example environmental taxes to discourage poor environmental performance and tax breaks to reward good environmental practices. This makes it even more important for companies to take a more comprehensive approach to environmental cost assessment in the investment appraisal process.

### Management of 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 environmental management accounting 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. ■

Contact Aidan Turnbull on (01249) 700104

