

Storm warning

The key risks for business are often strategic, but evidence suggests that many organisations are failing to tackle these sufficiently. Climate change is especially overlooked, yet it has the potential to fundamentally alter an organisation's business model. CIMA's Gillian Lees and Helenne Doody consider the nature of this strategic risk and how to integrate it into the planning process.

Strategic risks have certain characteristics that make them particularly challenging to manage – and climate change is no exception. Such risks may be hard to predict and they may not result in a single identifiable risk event. Strategic risk events may result from a combination of apparently unrelated and/or trivial events which, when mixed, create a potent cocktail. Therefore, it is important to look at risk in an integrated way across an organisation, as advocated by the enterprise risk management (ERM) approach. It may also not be immediately obvious that a strategic risk event has materialised or it may occur over a long period of time but if it takes some time to take effect, it is often too late to respond effectively.

It has only been in the last few years that climate change has been recognised by governments and society as a major threat, and there is debate as to whether it is now too late to adequately mitigate climate change and its associated problems. A global

response is taking place though, and it will become increasingly difficult for companies to maintain competitive advantage without addressing climate change issues. It will almost certainly require changes to the way many organisations operate and climate change may threaten the very survival of some businesses. Organisations need to be able to respond effectively.

So let's take a look at some of the risks and drivers that make climate change a strategic issue for business.

Extreme conditions

More and more we hear about the problems caused by extreme weather events, such as hurricanes and flooding. The effects on communities of such changes in weather conditions are highly visible and often covered in the media, but there are also negative consequences for business as a result of climatic changes. The World Business Council for Sustainable Development (WBCSD)

points out the following business risks:

- Higher temperatures could affect the location, design, efficiency, operation and marketing of business infrastructure, products and services.
- Water scarcity could hinder business operations, particularly those of water-reliant industries.
- Rising sea levels could affect the location of business operations, and submerge or complicate access to raw materials, human resources or physical assets.
- Increased frequency of extreme weather events could damage business infrastructure, disrupt logistics, and affect business continuity.
- Changes in the distribution of diseases (e.g. malaria) and greater population migration could impact on workforces and markets.

Many organisations are not yet considering the risks of these climatic changes though, perhaps under the impression that we still have decades before the impacts will

really come to bear. However, the effects of climate change are already starting to show and organisations need to be factoring climate change risks into their strategy and planning processes now.

As an example, the wine industry is already seeing the impacts of climate change and having to adapt accordingly. Producers are being affected by higher temperatures and changing weather patterns, and the harvest season is coming earlier in almost all regions. To protect quality, growers are starting to move their crops to higher altitudes, altering their water schedules and thinking about changing their growing patterns to grape varieties that can tolerate more heat.

High pressure front

Climate change could also affect business through its impact on key stakeholders. Consumer tastes are shifting and many customers and employees now favour companies with a reputation for corporate responsibility and being 'green'. Organisations that do not keep up with environmental initiatives will potentially lose market share and talent to competitors who are ahead of the game.

Investment analysts are already asking for disclosure of climate risks and demonstration of effective risk management strategies, and are likely to demand more disclosure in the future. Investors are also starting to shift away from businesses thought to be at risk from climate change or of contributing to it.

Governments are taking the issue seriously and new legislation is being introduced to try to mitigate climate change. For example, 2008 saw the introduction of the Climate Change Act, the Energy Act and the Planning Act in the UK, all aimed at ensuring that legislation underpins the long-term delivery of the government's energy and climate change strategy.

The Climate Change Act is a relatively radical piece of legislation, committing the UK to carbon emission reductions of 80% by 2050. One way of achieving these reductions is through the introduction or expansion of carbon trading schemes, such as the Carbon Reduction Commitment (CRC). The CRC is due to come into force later this year and will apply to entities with an energy bill greater than about £0.5 million, covering around 5,000 private and public sector organisations. Similar schemes are being introduced in other countries,

including the US, and organisations should be ensuring that they are prepared.

And it is not just those organisations directly covered by carbon trading schemes that will be impacted. Larger organisations that are captured are likely to push efficiencies down the supply chain and carbon management will be a bottom line consideration for many businesses. There will also be reputational risks resulting from non-compliance or from being given a poor rating on the league tables that are proposed as part of the CRC.

So, given the impacts that are already starting to emerge, and the fact that there will be more to come, it is likely that organisations will have to change their business models, whether through a desire to help address climate change or in response to the changing needs of regulators, consumers and society. Organisations should be adapting their strategy now and not let climate change fall into a strategic blind spot. But how do organisations go about taking a strategic approach to climate change?

The four-box framework of the CIMA Strategic Scorecard is useful for helping to embed climate change into strategy. The scorecard was developed to help boards focus on the key strategic issues facing their business and to provide a framework for their involvement in the strategic process.

The scorecard has four dimensions: strategic position, strategic options, strategic implementation and strategic risks (see Figure 1, p14). These cover the main areas of strategy that need to be considered. The scorecard prompts directors to ask constructive and searching questions of management and helps them to determine key points at which they must take decisions.

Ideally, climate change should be included within the various boxes of an organisation's overall strategic scorecard. Because it is a new issue for organisations, it may be helpful to set up a separate scorecard to ensure that boards ask the right questions about climate change. In due course, climate change should be integrated into the organisation's strategy and not need its own scorecard.

'Carbon management will be a bottom line consideration for many businesses.'



Figure 1. The CIMA scorecard

Strategic position	Strategic options
Strategic implementation	Strategic risks

Figure 2. Strategic position

- What is the current state of science in relation to climate change?
- What are the trends in consumer taste in light of climate change? What is the impact on the organisation's market?
- What are our competitors doing? Have they started generating options to respond to climate change?
- At what point will what we are doing at the moment not be possible anymore, due to legislation, energy prices, restrictions on mobility?
- What is the current thinking on environmental technology? Are there alternatives that fit with our business?
- What are the threats and opportunities arising from climate change? Models such as SWOT and PEST may be useful but they tend to focus on current issues – longer time horizons should be considered.
- What are the regulators doing/proposing around climate change that will affect the organisation? Consider national and global developments.
- What are the risks/threats in our supply chain? How can suppliers be used to help address the issues?
- Are we addressing criteria looked at by ethical investors?
- Do we have the correct stance on climate change to attract the right employees?
- What are we doing to ensure our organisation is climate change 'proof'?
- Will the actions of NGOs or interest groups affect the organisation?
- Is there intangible value to our products that we can promote, such as local produce?

Figure 3. Strategic options

- Maximise strategic investments in climate-friendly products and processes.
- Take over an organisation that has access to the right technology (e.g. clean technologies).
- Create partnerships that would allow a new business model to develop (e.g. a car manufacturer partnering with an electricity company to produce electric-powered vehicles).
- Set up a business unit to collate carbon emissions data.
- Restructure to facilitate home-working and minimise business travel.
- Provide training/support to suppliers to help them change their business model to the advantage of both organisations.
- Utilise leadership status on climate change to increase brand value.
- Take the costs of carbon emissions into account in major investment and operating decisions.

Figure 2 shows examples of some of the questions that might be asked to assess the strategic position in relation to climate change. This is not an exhaustive list and it will depend on your organisation as to what sorts of questions may be appropriate. It is important to note that when answering questions around strategic position, hard facts should be used and answers should be supported by evidence.

Once the strategic position is clear, options should be easier to identify. They will be specific to the organisation and should arise out of the analysis of strategic position. It is useful to walk through different scenarios and generate options based on the organisation's business model, although ideas may be considered that change the scope or geography of the business. The aim is to come up with a number of options, some of which will then be worth exploring in more detail. At this stage it is about considering what might be possible, without being too specific or exact. While options will vary widely by sector and organisation, some examples of strategic options that may be considered in relation to climate change are shown in Figure 3.

Sometimes it may require 'thinking outside the box' to come up with a strategic option. For example, worldwide delivery company UPS came up with a slightly unusual initiative for improving efficiencies on their distribution routes. A couple of years ago, the company introduced a global policy of avoiding left hand turns in the US and invested in a 'package flow' software programme that carefully plans routes, minimising idling time at junctions. The UPS vans now travel in a series of loops with as few left hand turns as possible. It may sound like a crazy idea, but in 2007, through using this route planning technology, UPS reportedly saved nearly 30 million miles (on already streamlined delivery routes), millions of gallons of fuel and, consequently, millions of dollars. It also cut carbon emissions dramatically, improved safety and reduced delivery times.

It is important to think through a number of different strategic options and then prioritise the ones that the organisation is able and willing to act on. When assessing viability, the social, environmental and economic impacts should all be considered.

Once the most suitable strategic options have been decided upon, the strategic implementation and risk boxes need to be worked through in relation to the

options selected. An example of strategic implementation may be Marks and Spencer (M&S)'s Plan A. Plan A is a five-year, 100-point ecological scheme introduced to tackle what it considers to be some of the biggest challenges facing its business – one of which is climate change. M&S is pursuing this option because they believe it is what is expected of them by their stakeholders and because they believe it is the right thing to do. It is called Plan A because the company considers it is now the only way to do business; there is no Plan B. This demonstrates the strategic importance that M&S has placed on pursuing Plan A. It is not just an idea or only about branding – there are tangible steps and metrics. It is also considered a work in progress and is being continually reviewed.

Accurate forecasting

Finally, referring to the strategic risk box on the scorecard, these are specific strategic

risks relating to the strategic options decided upon. An example of a strategic risk that may be considered asks the question: 'What if the organisation does not achieve the brand ideal portrayed?'. Taking M&S as an example again, what would the damage be to their reputation if Plan A was found to be a PR exercise with no real strategic changes happening within the organisation?

Plan A is proving a successful strategy. It is hard to quantify revenue benefits, but research has demonstrated that Plan A has helped the M&S brand and that employees are motivated and engaged. M&S has also seen cost savings through implementing parts of the plan. For example, within a matter of months, it saved over £0.5 million on recycling hangers – asking the customer if they would like the hanger to be recycled rather than placing it automatically into the carrier bag – a simple plan that required little investment.

Returning to the scorecard, assessing strategic position, options and risks should be an ongoing process. Climate change is a fast moving area and there is no one right answer. It is about trial and error, experimenting with different options and continually monitoring your position.

It is also important to remember that climate change should not be considered in a generic way, but in the way most appropriate to your organisation's existing strategy and core business choices, so that actions taken support both your business goals and the environment. Using the strategic scorecard approach should help to ensure that the actions are tailored to your organisation.

Ultimately dealing with climate change should be about making smart business decisions that also provide environmental benefit. It's about using enterprise and initiative to do things differently but without compromising level of service. And it's about incorporating climate change into strategy and day-to-day operations. ■

For more information on the CIMA Strategic Scorecard and on tackling climate change strategically, please visit www.cimaglobal.com/strategicscorecard and www.cimaglobal.com/sustainability

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