

A square inset image showing a close-up of a modern building's facade with glass and metal panels, partially obscured by green foliage at the top.

PROFESSIONAL ACCOUNTANTS CHANGING BUSINESS FOR THE PLANET

A simple guide to natural capital
management for business leaders

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PROFESSIONAL ACCOUNTANTS CHANGING BUSINESS FOR THE PLANET: A SIMPLE GUIDE TO NATURAL CAPITAL MANAGEMENT FOR BUSINESS LEADERS

This guide is the output of ACCA's desk-based research and information from our contributors, who have provided valuable insights through their participation in the roundtables and interviews that we conducted as part of this project. We have provided many examples and links to other organisations with natural capital management expertise to give readers further support in connecting to more detail. In providing these links, ACCA is not intending to endorse any commercial activities associated with these organisations.

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Executive **summary**

For many professional accountants, formulating and executing natural capital strategies is likely to be a new experience, and a journey, that will comprise several key steps.

- **Know where you want to go** – this starts with understanding your natural capital risks and opportunities by connecting the organisation's value chain to its areas of natural capital dependency and impact.
- **Get on the journey** by putting in place a sustainability governance framework, which will enable options to be identified and decided upon. Then build the business case for obtaining finance, and develop natural capital capability, motivate people and implement strategic actions related to the multi-capitals (see Figure 1.2) approach, assessing progress that will, where necessary, trigger the required risk interventions.
- **Let others know where you are**, by using the data from your multi-capitals information systems not only for your own decision making but also for engaging with stakeholders, communicating progress relevantly and reliably.



Our **key messages** at the start of each of this report's sections provide high-level guidance to better appreciation of the journey, with the text that follows setting out the steps in more detail, accompanied by examples.

**GET ON THE JOURNEY BY PUTTING
IN PLACE A SUSTAINABILITY
GOVERNANCE FRAMEWORK,
WHICH WILL ENABLE OPTIONS TO
BE IDENTIFIED AND DECIDED UPON.**

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1. Introduction

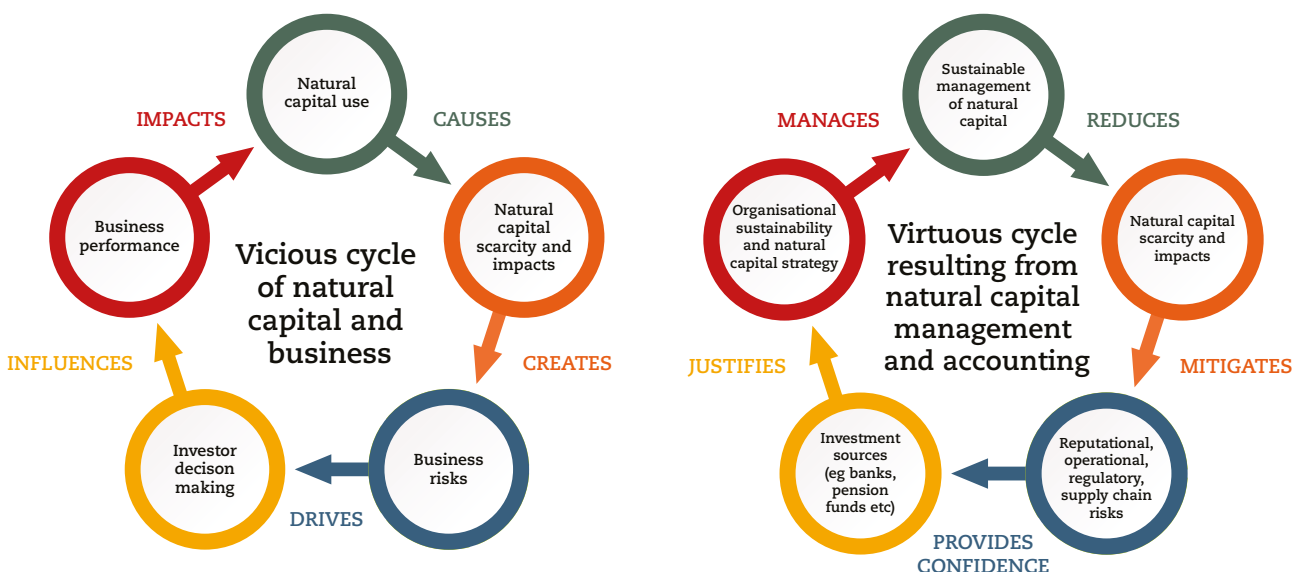
Key messages

- As a professional accountant and leader, you have direct responsibility for an organisation's long-term financial well-being, through sustainable value creation. To do this you must assess and drive strategic option selection, finance, risk management and control, together with leading performance reporting.
- For many organisations, natural capital is a material factor underpinning the organisation's resilience, therefore financial well-being will be connected to good natural capital management.
- For professional accountants in leadership roles who are relatively new to natural capital management, we provide practical guidance, brought to life by examples to help you set and implement natural capital management strategies.

Natural capital is likely to be material to many organisations if, as research suggests, 50% of global GDP depends on it. It means that sustainable organisations and societal value creation will be connected to good natural

capital management (see Franco and WEF 2020; WEF and PwC 2020). A failure to manage dependency and impact on nature can create a vicious cycle (ACCA 2014) (see Figure 1.1), threatening business model resilience.

FIGURE 1.1: Vicious and virtuous cycles



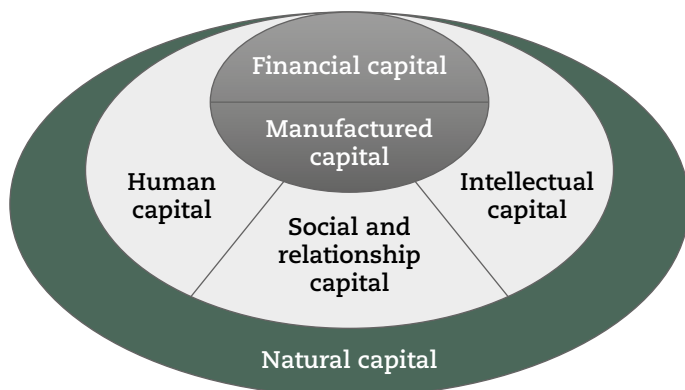
Business leaders, including chief executive officers (CEOs), chief operating officers (COOs) and chief finance officers (CFOs), set and implement strategy. The CFO has the direct responsibility for an organisation's financial well-being, which can only be sustained if due attention is paid to all underpinning material capitals (see Figure 1.2) (IIRC n.d.). As we have seen with the COVID-19 pandemic, human and natural capital issues that may once have been considered immaterial for an organisation's financial well-being can very quickly become material (IMP 2020).¹ Materiality and the business imperative to act are also driven by demand from external stakeholders, not least the investment community and regulators. Business leaders need to appreciate all the capitals, assessing materiality relative to value creation risk and opportunity, to avert vicious natural capital cycles and create virtuous ones.

In many organisations, and often less complex or smaller ones, the roles of CEO, COO and CFO may be combined, making the skill set of the professional accountant a vital component of the business leadership team in driving strategic option selection, financing, managing risk, and reporting performance fairly.

This guide provides you, the business leaders, who may be relatively new to natural capital management, with simple practical guidance, supported by examples, exploring the factors and processes required to set and implement natural capital management strategies. For those who wish to know more, we have included links to additional information.

While the discussion here focuses on natural capital management, you will find that the principles can be applied to other environmental and social issues relevant to business.

FIGURE 1.2: The interconnected multi-capitals



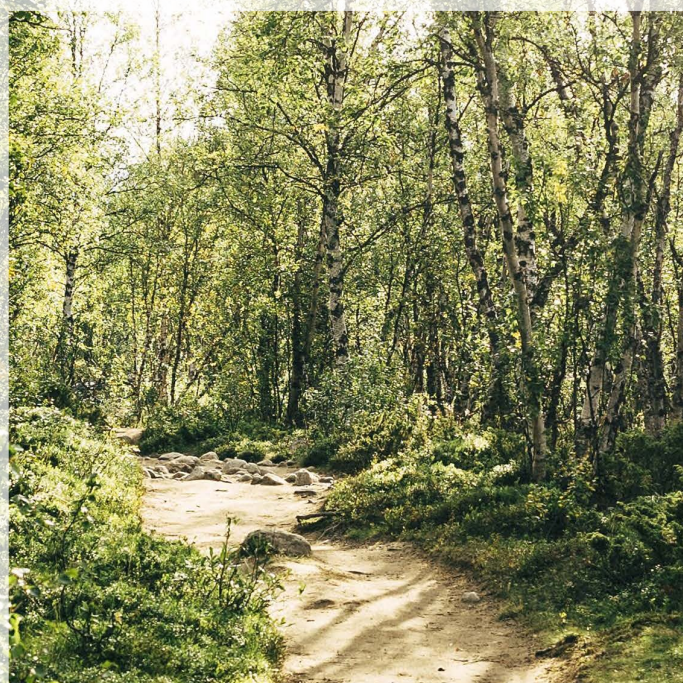
This is one of many ways to depict the capitals. Typically, financial and manufactured capitals are the ones organisations most commonly report on. The IIRC takes a broader view by also considering intellectual, social and relationship, and human capitals and natural capital, which provides the environment in which the other capitals sit.

Source: Incite 'Sustainability 2.0: A Guide to Competing in a Changing World'

BUSINESS LEADERS NEED TO APPRECIATE ALL THE CAPITALS, ASSESSING MATERIALITY RELATIVE TO VALUE CREATION RISK AND OPPORTUNITY, TO AVERT VICIOUS NATURAL CAPITAL CYCLES AND CREATE VIRTUOUS ONES.

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¹ As highlighted in the Statement of Intent to Work Together Towards Comprehensive Corporate Reporting, signed by CDP, CDSB, GRI, IIRC and SASB in September 2020, <<https://impactmanagementproject.com/structured-network/statement-of-intent-to-work-together-towards-comprehensive-corporate-reporting/>>.



2. Determining strategic options and deciding on your natural capital management strategy

Key messages

- Know your natural capital impacts and dependencies by conducting a natural capital value-chain analysis using a common scale to aid decision making.
- Determine your potential strategic options using the '4Rs' model. To help you do this:
 - employ the innovative mindset of a 'sustainability trailblazer' (ACCA 2020), thinking holistically and at a macro level
 - collaborate with your network, including natural capital groups and the local community.
- Select your strategic option by using an integrated-thinking matrix supported by a feasibility study aligning strategy with vision.

Any strategy will always start with understanding the current operating environment, before moving on to determining options for managing risk or realising opportunity. In this next section, we outline how to determine your:

- natural capital impacts and dependencies, and
- potential strategic options, including choosing between them.

2.1 Know your natural capital impacts and dependencies

An evaluation of natural capital impacts and dependencies across your organisation's value chain will help you understand your current risks and future opportunities (see Box 2.1), from which you will be able to determine potential strategic options. This evaluation should consider the following points.

- The **value-chain scope**: is it from point of business entry to exit or does it extend to suppliers and customers?
- The **type of dependency or impact**: what does the business need from nature or what impact does business activity have on nature? Dependency will

typically be expressed as the input from nature, for example land or water. Impact could be expressed as damaging output, for example emissions to soil or waterways, or outcome, the actual impact on nature itself, for example biodiversity loss or biological density reduction.

- The extent to which the impact on nature will be considered is referred to as **boundaries**.
 - **Scope 1** – direct impacts owned or controlled by the business, for example, use of land to grow agricultural crops such as wheat for flour.
 - **Scope 2** – indirect impacts from 'utility services' consumed by the business, for example the emissions from purchased energy used to power the equipment that harvests the wheat.
 - **Scope 3** – all other ancillary impacts arising from the value chain, for example, the emissions and by-products produced by the chemicals company that manufactures pesticides used to protect wheat crops.
- The mechanism for creating a **common scale for measuring impacts**, aiding comparability (see Figure 2.1) (Granskog et al. 2020).



Box 2.1: Dependency and impacts on nature guidance

Measures impacts and dependences on nature by issue, sector and/or geography:

<https://naturalcapitalcoalition.org/natural-capital-protocol/>

<https://www.cbd.int/business/resources/tools.shtml>

<https://encore.naturalcapital.finance/en/explore?tab=dependencies>

Approaches to biodiversity impact assessments:

https://ec.europa.eu/environment/biodiversity/business/assets/pdf/European_B@B_platform_report_biodiversity_assessment_2019_FINAL_5Dec2019.pdf

Raw material sourcing:

<https://www.cisl.cam.ac.uk/resources/natural-resource-security-publications/measuring-business-impacts-on-nature>

Agriculture sector:

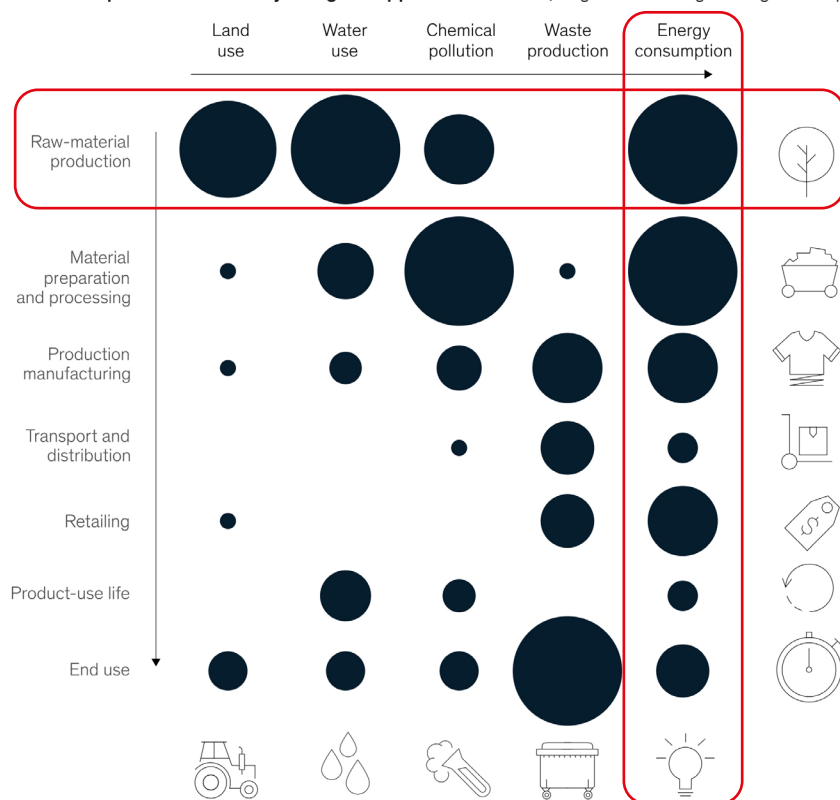
<https://www.rabobank.com/en/about-rabobank/in-society/sustainability/articles/2017/20170706-biodiversity-monitor.html>

Impacts of human activities on biodiversity: <https://www.globio.info/>

Biodiversity implications by geography: <https://ibat-alliance.org/>

FIGURE 2.1: Worked example for the clothing sector

Relative impact on biodiversity along the apparel value chain, larger circle = higher negative impact



Value-chain scope: assumed to include suppliers and customers as chain starts with raw materials and ends with disposal (end use)

Types: taken as the three dependencies of land, water and energy and two impacts of chemical pollution and waste production, identified as inputs and outputs respectively.

Boundaries: Assumed to be scope 1 and 2 based on value-chain content and impacts selected. If scope 3 is included, it is likely to be at a more detailed level of analysis

Common scale: The circle sizing creates a common scale, much like a traffic light system. At a glance key problems area are:

- raw material production – land, use of water and energy
- processing – chemicals and energy
- end use – waste.

¹Includes yarn preparation, fabric preparation (weaving and knitting), and dyeing.

²Includes cut, make, and trim (CMT) and washing and finishing.

Source: Expert interviews; McKinsey analysis

2.2 Determine your options

Having analysed the natural capital value chain, it is then important to identify both the risks and opportunities to which this gives rise, to inform the potential strategic response. A framework, such as the 4Rs of restore, reduce, remove and reimagine success used here, can help generate potential strategic option ideas (see Figure 2.2).

Envisaging small changes related to the 3Rs of remove, reduce and restore is probably relatively easy. The fourth R, reimagining success, demands rethinking the meaning of 'value', and this should be closely connected to the organisation's purpose and vision. In reimagining success, strategic decisions related to the trade-offs between different capitals will inevitably need to be taken (see Box 2.2).

FIGURE 2.2: Definition of the 4Rs



REMOVE: cease the activity, or replace it with alternatives that will achieve the same outcome, for example no longer using plastic packaging, possibly replacing it with recyclable packaging.

REDUCE: lessen negative impact by employing principles of taking only what is necessary or using natural capital that is already damaged.

RESTORE: repair the negative impact, for example by regenerating what has been lost.

REIMAGINE: create innovative transformation to achieve the 3Rs above, or create new value, fundamentally involving a mindset change, for example:

- remove impacts from power generation by using only wind or solar powered energy sources
- reduce impacts through
 - circular economy principles, where waste from your process becomes an asset in another's production
 - generating greater yields from land
- New value through repurposing business, for example producing geothermal energy from disused oil wells.



Box 2.2: An example of trade-offs

Reducing natural capital footprint may mean stopping certain low-margin, more polluting product lines. Financial capital may benefit, from cost reductions in the short term and higher profit margins on green products in the longer-term. But this could be at the cost of human capital, as staff working on these discontinued product lines may lose their jobs. A careful balancing of priorities between different capitals is therefore needed. ■

**IN REIMAGINING SUCCESS,
STRATEGIC DECISIONS RELATED TO THE
TRADE-OFFS BETWEEN DIFFERENT CAPITALS
WILL INEVITABLY NEED TO BE TAKEN.**

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Growth will no longer mean simply maximising financial performance and balance sheet valuation at all costs for shareholders, but instead will connect to generating positive outcomes in a balanced way across the different capitals, therefore creating sustainable value for the multiple stakeholders providing them (see Figure 2.3).

Research by Black Rock shows that companies with a stronger focus on material sustainability issues tend to be more resilient and outperform their peers, especially during economic downturns. This suggests that an integrated approach to management, where the drive for short-term financial profit is balanced with stewardship for key value-creating capitals, does pay off (see Box 2.3)

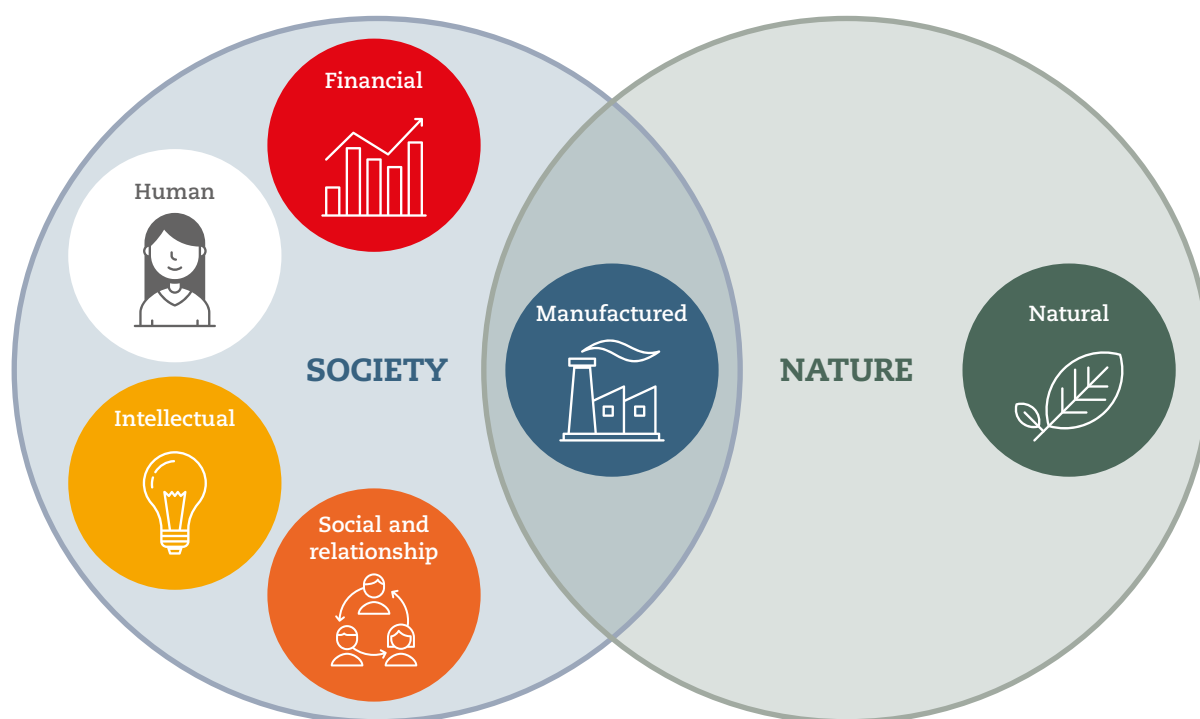
(Siobhan Riding, Financial Times 2020; Hildebrand et al. 2020). Therefore, organisations focusing on shareholder wealth benefit too, albeit in the longer term.

In deciding on a suitable potential natural capital management strategy or, more generally, a sustainability strategy, each organisation will make decisions aligned to its own strategic decision framework. Nonetheless, in relation to natural capital, leading organisations in this area applied two common principles:

- adopt the innovative mindset of a sustainability trailblazer
- learn from others.

FIGURE 2.3: Society and nature as providers of capital

SOCIETY provides and generates human, intellectual, social and relationship capitals, and is a substantive contributor to manufactured capital. **NATURE** provides raw materials and ecosystem services.



Box 2.3: ESG and sustainability fund performance

In the first quarter of 2020, investment research assessments by Morningstar and MSCI had 51 of 57 and 15 of 17 of their sustainability indices, respectively, outperforming their broad market counterpart indices. While this short time period is not determinative, it aligns with the resilience observed in sustainable strategies during earlier downturns in 2015–2016 and 2018. Furthermore, these results are consistent with the research BlackRock has been publishing since mid-2018, demonstrating that sustainable strategies often do not require a longer-term return trade-off and have important resiliency properties. ■

2.2.1 Adopt the innovative mindset of a sustainability trailblazer

The mindset of a sustainability trailblazer (ACCA 2020) can set you apart from the rest. It requires holistic thinking, focusing on where the greatest difference can be made. Frequently, this requires thinking beyond your organisation, perhaps at industry sector level, or across your value chain, both vertically, to suppliers and customers, and horizontally to complementary industry sectors (see Box 2.4 (Sime Darby 2020)).

2.2.2 Learn from others

The vested interest of stakeholders in your organisation often makes them knowledgeable and motivated to help shape strategy through sharing ideas. When they do, they are also more likely to support implementation (ACCA 2018a). Opportunities to learn can take several forms:

- taking part in natural capital groups
- using the guidance from investment, certification and regulatory bodies
- working with and learning from your local community.

Be aware of the activities of natural capital groups

Contributing to or just being aware of the outputs from business-led natural capital groups connects you to a wealth of resource and support, revealing ideas and ways of realising them. These groups provide scope for learning and improving natural capital scientific literacy. This, in turn, helps develop better understanding of potential sources of risk, highlighting connections to financial issues and ultimately leading to mitigation options (ACCA 2019a).

Collaboration can make possible what once seemed impossible (see Box 2.5). Further, participating in these groups can strengthen commitment to implementing the new strategy.

The groups can also enable better policymaking, with the macro-level information and common metrics that such groups generate providing insight on progress, challenges and comparative approaches (see Box 2.6).

If you are unable to participate in these groups, for example through inability to meet eligibility criteria or insufficient time to commit, another option would be



Box 2.4: An example of a sustainability trailblazer mindset – sharing for sector benefit, Sime Darby Plantation (SDP)

Palm oil production has caused deforestation and biodiversity loss around the world.

SDP is a palm oil producer innovating to limit the impact on the environment by the sector. The company is going beyond developing innovations for its sole use, to sharing knowledge with its peers so that the whole sector may together reduce its environmental impact. This includes:

- sharing the genomes that enable the palm trees to increase yield quantity and quality by 20%
- satellite mapping plantations, which help producers to appreciate the environmental impact that they are having, and drive action towards precision agriculture
- providing customers and suppliers with the traceability tools used by SDP, so that they can be quickly alerted to risks in forest landscapes.



Box 2.5: Act4 Nature group Avène and Pur collaboration project

As part of the Act4Nature group, Avène and Pur Project partnered to preserve the marine ecosystem in the North-West of Bali, collaborating with the local association, Pokmasta, to do so. Each organisation contributed its individual capabilities to restoring the coral reef and replanting agroforestry and mangroves. ■



Box 2.6: Natural Capital Groups

The organisations below, and many others, share their insights to help build and implement natural capital strategies.

Capitals Coalition: <https://naturalcapitalcoalition.org/>

Value Balancing Alliance: <https://www.value-balancing.com/about-us/>

Act4Nature: <http://www.act4nature.com/en/>

A4S: <https://www.accountingforsustainability.org/en/index.html>

Business for Social Responsibility: <https://www.bsr.org/en/>

Flora and Fauna International: <https://www.fauna-flora.org/approaches/biodiversity-business>

to lobby your industry chambers to set up a special interest group, where learnings from more experienced organisations, and best practices from industry peers can be distilled and shared with members through continuing professional development (CPD) and networking events.

Using the guidance from investment, certification and regulatory bodies

There is considerable guidance available from the certification and regulatory community. Additionally, acting as both a source of finance and guidance, there are many banking, investment and insurance institutions offering green bond programmes. These initiatives and guidance are available for geographical regions and industry sectors, providing tailored guidance for your specific business need (see Box 2.7). They can be a great source for identifying relevant natural capital initiatives to employ, for example the framework for selecting the suppliers to use, and they provide the criteria essential for a good natural capital strategy (see Box 2.8 on the ACMF) (ACMF 2017; ACMF 2018) (regulatory guidance).

**INITIATIVES AND GUIDANCE
ARE AVAILABLE FOR
GEOGRAPHICAL REGIONS
AND INDUSTRY SECTORS,
PROVIDING TAILORED
GUIDANCE FOR YOUR
SPECIFIC BUSINESS NEED.**



Box 2.8: ASEAN Capital Markets Forum (ACMF)

ACMF is a high-level grouping of capital market regulators from all 10 ASEAN jurisdictions. ACMF has been issuing green, social and sustainability bond standards for several years. The ASEAN Green Bonds Standards is an initiative enabling ASEAN capital markets to access green finance to support sustainable regional growth and meet investor interest for green investments. As at December 2019, bonds totaling US\$5.3bn have been issued to fund green strategies across ASEAN.

The standards set out criteria that need to be reflected in an organisation's green strategy and its implementation, which can therefore be the basis for deciding strategic options.

- Green focus can be in the area of
 - energy efficiency and renewables
 - pollution prevention and control
 - environmentally sustainable management of living natural resources and land use
 - terrestrial and aquatic biodiversity conservation
 - clean transportation
 - sustainable water and waste management
 - climate change adaptation
 - eco-efficient and/or circular-economy-adapted products, production technologies and processes, and
 - green buildings which meet regional, national or internationally recognised standards or certifications.
- an implementation and reporting approach that is accessible to stakeholders
- environmental benefits that are clearly articulated, can be assessed and, ideally, quantified.



Box 2.7: Guidance from the investment, certification and regulatory community

INVESTMENT AND REGULATORY COMMUNITY GUIDANCE

Potential for green strategy drawn from eligibility criteria:

Suruhanjay Sekuriti Securities Commission Malaysia:
<https://www.sc.com.my/api/documentms/download.ashx?id=84491531-2b7e-4362-bafb-83bb33b07416>

ACMF: <https://www.theacmf.org/initiatives/sustainable-finance/asean-green-bond-standards>

Green Finance Standards: <https://greenfinanceplatform.org/financial-measures-database/peoples-bank-china-green-bond-endorsed-project-catalogue>

SECTOR AND NATURAL CAPITAL ASSOCIATED ACTIVITY GUIDANCE

Primary producers including small enterprises:

<https://www.fairtrade.net/standard>

Agriculture: <https://www.ecocert.com/en/expertise/sustainable-farming>

Marine: <https://www.msc.org/home>

Forestry: <https://www.pefc.co.uk/forestry/sustainable-forest-management-certification>

Palm oil: <https://rspo.org/certification>

Mining: <https://miningwithprinciples.com/category/environment/>

Supply chain: <https://www.prologis.com/about/resources/top-10-supply-chain-management-certifications>

Working with and learning from your local community

All organisations are part of a local community. Meeting with community members enables a full appreciation of your connections, helping develop your value chain understanding, and this can be a source of new and better ways of together managing natural capital (see Box 2.9; South West Water 2012).

Innovative lateral thinking, like that of South West Water (Box 2.9), is not easy, so changes in corporate culture supporting the bottom-up generation of ideas can help. Involving the younger generation of employees in brainstorming, designing and implementing natural capital innovations can be an effective way of motivating and retaining them (ACCA 2018a; 2018b; Deloitte 2020).

INNOVATIVE LATERAL
THINKING... IS NOT EASY,
SO CHANGES IN CORPORATE
CULTURE SUPPORTING THE
BOTTOM-UP GENERATION
OF IDEAS CAN HELP.



2.3 Use a framework for choosing between your options

Working through a trade-off between the capitals requires integrated thinking to evaluate the connections and to settle upon the appropriate compromises to maximise value creation. One approach to this is via an adapted version of the Kraljic matrix (Wikipedia n.d.b; and see Figure 2.4). This approach maps potential strategic options, given the natural capital risk being mitigated in relation to long-term impact on financial capital, a proxy measure of the net impact on other material capitals. The potential options are allocated to one of four groups.

- **Non-critical** options are those that do not significantly mitigate natural capital or financial profit. These are only worth pursuing if they achieve other non-monetary benefits.
- **Pursue** options are those with a positive impact on profit but no worsening of natural capital.
- **Strategic** options are those where both natural capital risk management is being achieved and there is a high financial profit; such options therefore have the best outcome for sustainable value creation.
- **Deep dive** options are those where natural capital can be managed but the impact on profit may mean that such options are not feasible or there are potentially other unpalatable capital trade-offs, so more investigation is needed.



Box 2.9: South West Water looking beyond its own natural capital problem

South West Water – Saving costs through natural capital investment

South West Water (SWW) is a UK based water company and had to deal with an increasing deteriorating water quality and related operation costs. Usually, SWW would have addressed this issue by upgrading its technology, which would be a cost intensive solution. However, with the help of a natural capital assessment (NCA), another solution was identified that – unlike the classic end-of-pipe solution – worked in collaboration with the farmers to reduce the amount of diffused pollution and agricultural run-off into the region's waterways; and to restore the peatland ecosystems in the region. With a cost-benefit ratio of 65:1, this solution was found to be far superior compared to the treatment of polluted water with new technology. (South West Water Sustainability Report 2012)

The understanding that South West Water has of its local community helped it identify a solution to its own natural capital problem. ■

FIGURE 2.4: The natural capital integrated thinking decision matrix, including example

In response to COVID-19 social distancing measures and with the aim of improved management its natural capital dependencies and impacts, an education institution currently delivering face-to-face teaching and providing learners with all materials in paper copy considers four options.

LONG TERM POSITIVE IMPACT ON PROFIT	HIGH	PURSUE Paper-based distance learning offering, where learners print materials and complete assignments, posting back to the education institution for marking. There are benefits as the need for teaching premises will be reduced and a global offering is possible, but there will be increased postal costs.	STRATEGIC Fully digital interactive education business model, mimicking the most valued face-to-face features, capable of a global offering. Therefore, this expands the market and removes the need for: • premises • travel to location • print and despatch of paperlearning materials.
	LOW	NON-CRITICAL Combination of face-to-face and paper-based distance learning offerings, creating an opportunity to support the current number of learners, but no reduction in teaching premises or printed materials.	DEEP DIVE Digital distance learning where learners receive digital materials (PDF) instead of paper versions. Greater understanding of usability for learners is required if this is not fully interactive.
		LOW	HIGH
		NATURAL CAPITAL RISK MITIGATED	

Together with mapping the options, decisions relating to each option need to be tested both for feasibility and for alignment with the organisation's vision. This testing should consider:

- **purpose** – alignment to the organisation's purpose, vision and objectives (see example in Box 2.10)
- **reputation** – alignment to stakeholder expectations (see Box 2.11)
- **regulation** – compliance with relevant investment, certification and regulatory body guidance (discussed in the options section above)
- **operation** – deliverability; factors for this are considered in the next section.

THIS APPROACH MAPS POTENTIAL STRATEGIC OPTIONS, GIVEN THE NATURAL CAPITAL RISK BEING MITIGATED IN RELATION TO LONG-TERM IMPACT ON FINANCIAL CAPITAL, A PROXY MEASURE OF THE NET IMPACT ON OTHER MATERIAL CAPITALS.

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Box 2.10: City Development Limited – Options appraisal against purpose, vision and objectives

VISION AND STRATEGY

CDL's purpose and vision of 'Conserving as we Construct' was established in 1995. The strategy for realising the vision has been incremental, starting with a focus on risk management and defensive corporate social responsibility, moving on to being aligned with global best practices, and now an integrated strategy for creating sustainable business value. As CDL heads towards 2030, the aim is to extend this value creation more broadly towards greater societal benefit.

OBJECTIVES

CDL's objectives are to:

- develop sustainable and green buildings
- manage buildings in an energy- and resource-efficient way
- engage stakeholders to support CDL's commitment to sustainability.

APPRAISAL MODEL FOR INITIATIVES TO ACHIEVE OBJECTIVES

Business cases are approved on the basis that they meet the objectives of:

- **integration** – integrated thinking, sustainability apparent throughout the layers of the organisation's governance and structure
- **innovation** – technologies and solutions that accelerate the achievement of a low-carbon and resilient economy
- **investment** – growing ESG investment, investing in green and responsible business opportunities
- **impact** – across the value chain and wider ecosystem of stakeholders, tracking and reporting impact.



Box 2.11: Rob Mutchell, Castrol (BP division) – managing expectations

The transition journey for your products needs to align to where the world is and according to the timeline relevant for both your business and stakeholders, not just shareholders.

Our approach to investment appraisal is at a holistic portfolio level, so considers a combination of projects together. Many of the projects within our portfolio require large capital investment and have a long lead time to returns. We have a diverse stakeholder group with diverse needs. The portfolio approach allows us both to achieve our net carbon by 2050 strategy and to bring our stakeholders on this journey. ■



3. Implementing your natural capital management strategy

Key messages

- Natural capital strategy requires adherence to the tenets of good governance and corporate reporting.
- Organisation-wide processes and accountability for natural capital, at all levels of the organisation, will help promulgate natural capital engagement across the organisation, from the board to the production floor, from procurement to finance
- Consider the use of green finance to implement your strategy. The returns expectations of green finance providers are likely to be a better match for your natural capital returns than would be the case for traditional financiers. Many green financiers also provide the appropriate tailored guidance and training.



Deliverability and feasibility are key considerations for any natural capital strategy, therefore suggestions made here for implementation are also part of deciding a natural capital strategy, and include:

- governance
- access to finance
- communication.

3.1 Governance

Implementing a natural capital management strategy is like implementing any other strategy, requiring good governance tailored for its unique aspects.

As a business leader, you don't need to be a natural capital expert, but do you need to have an appreciation of the trade-offs between the capitals, supported by motivated, knowledgeable, and skilled employees throughout the organisation. They will be clear on their role and responsibilities, using this to establish and manage processes and systems.

3.1.1 People and skills

Where natural capital is material for your business, the benefits of having in a specific person, or committee or group responsible for natural capital policies, strategy and information may outweigh the costs. Developing this capability can start with something as simple as encouraging employees with a personal green interest to share their thoughts, through to employing an external consultant to conduct specific 'deep dive' work or educating and training internal and external stakeholders.

For many organisations, the necessary skill sets will need to be developed across the organisation's structure, appropriate to each employee across the organisation: in strategy, from managerial to operational, from finance to human resources, from procurement, production, sales and despatch to customer services (see Box 3.1).

3.1.2 Process and systems

Core aspects of process and systems include:

- setting out roles and responsibilities clearly
- connecting natural capital issues across the organisation and external environment
- embedding technology-enabled information systems for decision making.

**Box 3.1: Excerpt – Scale-up Success**

There are three steps that SMEs should take to create successful change.

- Leadership must define a green culture. When staff share and are committed to an organisation's purpose and vision, they are more likely to see its future as their own.
- Establish a governance framework to help build resilience – growth prospects can be supported if SMEs build a governance structure from the outset of their business journey.
- Continue developing the management team as the business grows – those founders who seek to retain control over all aspects of their business may run into trouble as complexity increases (ACCA 2019b).

FIGURE 3.1: Responsibility, accountability, communication and information (RACI)

R for responsible.

This is the person who undertakes the task, who therefore has the technical expertise.

A for accountable.

This is the person in charge of ensuring that the task is completed on time and/or to the quality expected.

C for consulted.

This is the resource person, who may have the information necessary for shaping the task.

I for informed. This is the person who must be updated regularly as the task is completed, usually because the task relates to fulfilment of their own responsibilities.

Setting out roles and responsibilities clearly

A responsibility, accountability, communication and information (RACI) system (see Figure 3.1 and Well Grounded 2019), properly embedded within the organisation's engagement structure, drives idea generation and capability development, and therefore quality decision making. RACI facilitates integrated thinking, and can motivate because its inclusive approach involves the wider organisation while providing clarity on roles, therefore mitigating the risks arising from groupthink (Wikipedia n.d.c.; Grundy 2017).

Outside the RACI system, communication is required for all employees, ensuring that they are appropriately engaged with natural capital management strategies.

Connecting natural capital across the organisation and external environment

A successful natural capital management strategy requires the organisation and its external environment to synchronise.

Across the organisation. Natural capital strategy needs to flow in a meaningful way throughout the organisation (see quote from Jim Snabe, below, and WEF 2018). While you may have a dedicated natural capital role or function, their technical contribution to strategy creation and implementation, risks and opportunities needs to feature in discussions across functions and levels within the organisation, from operational function teams of finance, operations, and risk management, to the audit committees. You should put in place, as appropriate to the nature and size of your organisation, a process and allow time for natural capital to feature within these forums (see CDL example in Box 3.2).

'WITH THE RIGHT CLIMATE RISK REPORTING AND DISCLOSURE IN PLACE, YOU ACHIEVE BOTH BOARD ATTENTION, FOCUS AND AMBITION'.

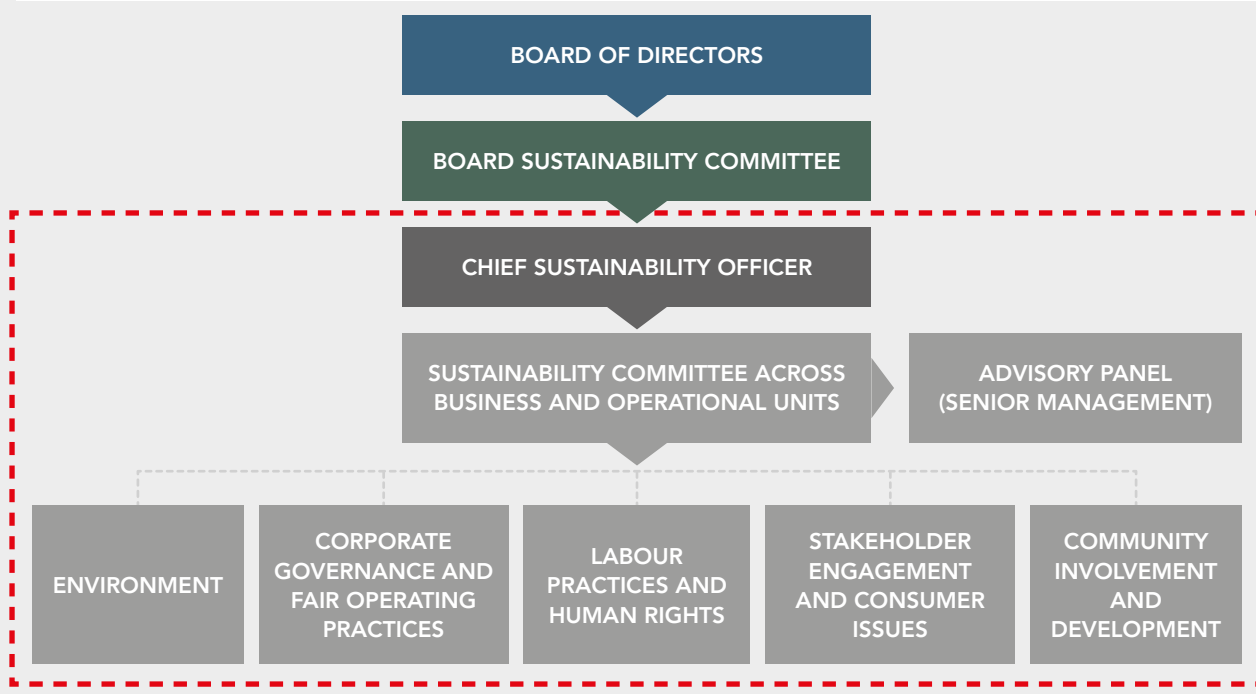
Jim Snabe, chairman of the supervisory board of Siemens AG and chairman of the board of A.P. Moller-Maersk Group, Quoted in WEF 2018



Box 3.2: CDL – Leadership across the organisation

- **Leadership Commitment: Board Sustainability Committee (BSC)** has direct advisory supervision of CDL's Sustainability Strategy and Programs
- **Sustainability Office as an Independent but Integrated unit:** reporting directly to BSC comprising 3 independent directors and Group CEO & Executive Director
- **Chief Sustainability officer (CSO)** chairs the Sustainability Committee that comprises members across all departments and operational units
- Line managers of each business unit are held accountable for their ESG performances, which are **linked to their remuneration and appraisal**

SUSTAINABILITY GOVERNANCE STRUCTURE



External environment. External stakeholders, whether customers or suppliers, are a core part of the natural capital value chain, therefore your chosen strategic option will affect them (see Box 3.3 for an example from the DIMO 2019/20 Integrated Report (DIMO 2020)). For each of your stakeholders, adapt the following steps as needed.

- Define your internal policies and the service-level requirements that will govern your relationships.
- Engage with stakeholders, thereby developing education and mutual expectations, to help change mindsets.
- Actively manage your relationships, going beyond monitoring financial performance.
- Maintain accurate and complete records.
- Inform stakeholders and listen to them to close the communication loop.



Box 3.3: Excerpt – DIMO 2019/20 integrated report

'A responsible value chain demands responsible suppliers. The ethical standards we expect of suppliers are enshrined in the DIMO Supplier Code. These include labour practices and health and safety commitments. All partners are required to reaffirm their commitment to these standards and must take action to also disseminate these through their own supply chain' (DIMO 2020). ■

Embedding technology-enabled information systems to connect data. Stakeholders and the RACI system need to be supported by relevant and reliable information.

- **Relevant** information is that which is suitably tailored and delivered in a timely manner for the stakeholder's purpose.
- **Reliable** information is consistent information brought together from the different stakeholder perspectives, which tells the same story and links back to the raw data.

Here, technology can be used collect, manipulate and share data in a way that supports aggregation or disaggregation, linking to other data relevant to stakeholder decision making (see the Solvay n.d.a example in Box 3.4).

Your finance and IT functions, or an external professional adviser, will help to identify your information system needs, taking account of those of providers of finance, customers and suppliers, together with other information you will need to make decisions, and as part of this process may identify information gaps.

These systems can be as simple or complex as the organisation's appetite, information technology infrastructure and financial capacity supports, so can vary from spreadsheet systems accessible on a SharePoint to a natural capital database. Many of the organisations cited in this report have sophisticated information systems, but they share their intelligence about what their systems do and why, so explore their websites to glean what would be useful for yours. Guidance on how to do this is provided in our guide for performance managers, who own the information systems.



Box 3.4: Solvay information for strategic decision making and the sales team

SOLVAY'S VISION AND STRATEGY

Solvay is a science-based company whose technologies relating to materials and chemicals are used in many aspects of life, from planes, cars, batteries, smart and medical devices, to water and air treatment, to name a few applications.

Solvay's vision is to create shared sustainable value for all, through solving critical industrial, social and environmental challenges.

HOW SOLVAY'S INFORMATION SYSTEMS ARE USED TO AID DECISION MAKING LINKED TO STRATEGY

Solvay has developed its own sustainability portfolio management tool, 'Compass', to aid implementation of its sustainability strategy, through better data appreciation across the business, from the senior management to all parts of the business, eg the sales function.

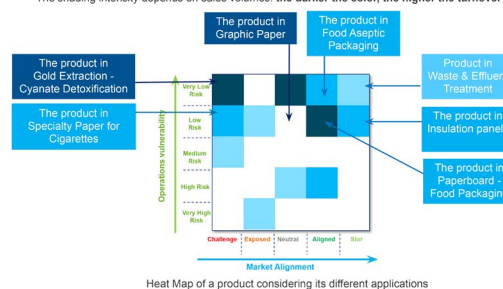
Solvay's senior management teams are making decisions on where and how to allocate resources. To do this, they receive information connecting a single product to its multiple consumer uses, for example treated paper being used in packaging from cigarettes to fresh food, mapped to environmental risk profile and alignment to the market (stakeholder needs).

The data within the tool is consolidated and reframed as a consolidated dashboard tailored specifically for the functions of the sales team. This helps the sales team understand sustainability issues connected with Solvay's products, and therefore help customers make more sustainable choices. ■

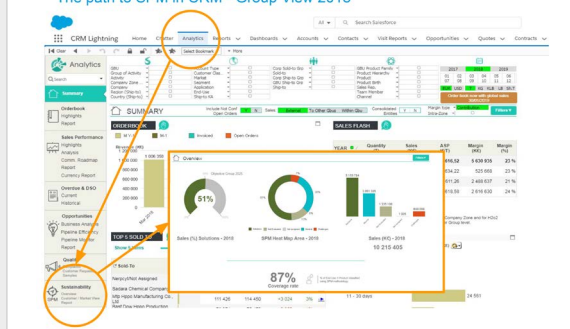
SPM METHODOLOGY

SPM is analyzing products in their final application

An area represents one or several products in their application
The shading intensity depends on sales volumes: the darker the color, the higher the turnover



The path to SPM in CRM - Group View 2018



3.2 Finance

Green finance initiatives have grown exponentially, often connecting public with private initiatives. There are many examples of this across the globe, from the European Fund for Strategic Investments (European Investment Bank 2020) and the Association of Southeast Asian Nations (ASEAN) Catalytic Finance Facility (ACGF) to the Asian Development Bank (ADB and ACGF 2020a) and other development partners (see Box 3.5). Their funding interests and activities extend from large-scale investments to SMEs.

As outlined earlier, within the section 2.2.2 on deciding on natural capital, using funders' eligibility criteria (ADB and ACGF 2020b) to develop natural capital strategy options will also increase your chances of gaining finance. Green-focused financiers will expect a return on investment that is more likely to match that yielded by a natural capital strategy, leading to a more symbiotic stakeholder relationship. In addition to eligibility criteria, green financiers often provide focused business guidance, training and connections, therefore giving much more tailored support than would be available from traditional investors.



Box 3.5: Green finance initiatives

Low emission, climate-resilient emission and ecosystem development: <https://www.greenclimate.fund/#>

Sector specific matching of finance with business: <https://www.greenfinanceinstitute.co.uk/>

Compendium of international and national policy initiatives: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/ICMA-Sustainable-finance-Compendium-of-international-policy-initiatives-best-market-practice-February-2020-200220.pdf>

Connecting UK and/or Chinese initiatives to finance: <https://www.ukchinagreen.org/green-finance/#>

European Fund for Strategic Investments: <https://www.eib.org/en/efsi/>

One of many sustainable banking initiatives: <https://pollinationgroup.com/climateassetmanagement/>

3.3 Communication

As business leaders, you are accountable for corporate reporting that presents a true and fair view of all material business operations. This reporting should be relevant, comparable, understandable and reliable (ACCA 2018c). Your performance managers, corporate reporting and assurance staff are tasked with providing the content to meet these requirements. The decisions that you need to make relate to your communication approach.

- **Stakeholder groups:** who are the groups to be engaged – just financial investors or a wider audience? This will determine the type of information, its format and the level of granularity needed. The audience for your reporting will affect how you identify their information needs, and make your materiality decisions. In turn, there will be implications for the process used to produce the information.
- **Type of engagement:**
 - How should information be presented? Should it be integrated within the annual report or are there requirements you must comply with, for example from certification bodies?
 - How frequently will you report? Will you align your natural capital reporting with formal corporate reporting, and therefore provide it in full on at least an annual basis, with potential for some interim reporting, or follow a different schedule?
- **Assurance:** will you seek external assurance? If yes, then what level of assurance will you require: 'reasonable' (the same level as audited financial statements), or 'limited' (commonly termed 'negative assurance')?

**AS BUSINESS LEADERS,
YOU ARE ACCOUNTABLE
FOR CORPORATE REPORTING
THAT PRESENTS A TRUE AND
FAIR VIEW OF ALL MATERIAL
BUSINESS OPERATIONS.**



**AS PROFESSIONAL ACCOUNTANT
AND LEADER, YOU ARE RESPONSIBLE
FOR THE ORGANISATION'S LONG-
TERM FINANCIAL WELL-BEING.**

**YOU DO THIS BY DRIVING STRATEGY,
SELECTING AND MANAGING FINANCE
AND RISKS, LEADING RELEVANT AND
RELIABLE PERFORMANCE REPORTING.**

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