

The FTSE250 and climate change:

What are companies in the FTSE250 doing to tackle climate change?

Media coverage of the activities big business is undertaking to combat climate change now filters into our lives on a daily basis. Large companies, none more so than those in the FTSE100, are under increasing public scrutiny for the carbon footprint of their operations. The adverse impacts inaction could bring in terms of damaged reputations and decreased sales revenues are major factors motivating these businesses to take action on climate change.

Smaller companies are not usually subject to such intense scrutiny by the general public. Therefore, the question arises as to whether these companies, such as those listed on the FTSE250, are recognising the important role of business in tackling climate change. Are smaller companies realising the risks climate change presents for the future sustainability of their business? Equally, are these same companies aware of the opportunities to be gained by taking a proactive approach to climate change? And what are the risks, barriers and challenges being faced by FTSE250 companies who are already taking action on climate change?

These questions formed the basis of Article 13's latest independent research report, which sought to identify trends, leadership and innovation in corporate responses to climate change amongst the companies in the FTSE250.

The research drew on information from publically available sources, including corporate websites; annual reports; CSR (corporate social responsibility) reports and responses to the Carbon Disclosure Project 5 (CDP5). This data was analysed to ascertain the characteristics of climate change related activities being carried out by FTSE250 companies and to pinpoint any climate change leaders within the group. Climate change leader companies became the subjects of case studies, compiled from the initial desk-based research and supplemented by semi-structured interviews held with a spokesperson from the relevant company.

Climate change, action or inaction?

The research revealed that few companies in the FTSE250 index are addressing climate change issues. Only 12.4% of the FTSE250 companies were found to display information about climate change on their corporate websites or online CSR reports. This information takes several forms, ranging from a statement explaining the company's position on climate change and an indication of the impact it perceives itself to have on the environment (e.g. Premier Oil); a list of actions the company has taken to reduce the carbon emissions related to its operations (e.g. Pennon Group); through to a detailed report of the CO₂ emissions resulting from energy use (e.g. Amec) and a climate change policy outlining the company's approach and carbon emissions targets to be achieved (e.g. Mondi).

Moreover, only 17% of the 160 FTSE250 companies that responded to the Carbon Disclosure Project in 2007 provided fulsome, verifiable data about their carbon emissions. In many cases, companies declared inaction, did not allow the CDP secretariat to disclose their questionnaire responses or provided information that was incomplete or of poor quality.



Scope of climate change action

Action on climate change by FTSE250 companies tends not to be sector specific, but rather falls into one of three broad categories: in-house solutions; product-based solutions or engagement through policy making.

The data analysis also revealed six key areas in which companies can take action to tackle climate change and, if appropriately publicised, demonstrate leadership and innovation. These key focus areas are listed below and further illustrated by case studies of FTSE250 companies leading the charge on climate change action (see the appendix):

- General climate change policy – see case study 1;
- Energy efficiency (in houses; for consumers; by suppliers) – see case studies 1, 2, 3 and 4;
- Carbon footprint reporting – see case studies 2 and 5;
- Development of clean energy technologies – see case studies 3 and 4;
- Campaigning or lobbying for climate change policy either within a sector or globally – see case study 3; and
- Establishing programmes for employees, suppliers and consumers – see case studies 1 and 2.

Drivers and barriers

The two main incentives for FTSE250 companies to take action on climate change are current and anticipated future legal regulations and brand reputation management. Owing to high levels of pressure from policy makers, companies in the construction and housing sector are well represented amongst the innovators. The utilities sector has the highest representation amongst the companies communicating on climate change, owing primarily to the fact that energy companies are subject to the monitoring and reporting requirements of the EU Emissions Trading Scheme.

Reasons leading to inaction on climate change were found to be the lack of EU and UK government incentives; the relatively low pressure from consumers for the companies to reduce their carbon footprints and the expense incurred in implementing some climate change solutions. Companies in the IT, health and material sectors are, therefore, more likely to be inactive because they are perceived as emitting less CO₂ than other sectors and are not subject to the same levels of external pressure.

Furthermore, companies have been slow to accept that climate change is critical to business success and there has been a distinct lack of interest in carbon emission reporting.

Challenges

The key challenge faced by FTSE250 companies when dealing with climate change issues is raising awareness amongst stakeholders. This primarily includes employees, suppliers and customers. For example, a company producing energy efficient cookers which retail at a higher price than traditional cookers has to develop an effective advertising campaign so that consumers understand that the initial increased financial outlay will be recouped in the long term, primarily through energy savings.

Lack of consistent and verifiable information about climate change and the carbon emissions of suppliers, competitors and companies in general is the second key challenge these companies face. This information deficit becomes an issue when companies want to select

suppliers and business partners with comparable records on climate change. It is also pertinent for financial companies seeking to benchmark the practices of a sector or rate companies' performance against their competitors.

Another recurring challenge has been how companies can best implement effective management systems to drive forward their climate change programmes.

What the future holds

It is expected that a number of key changes will occur in the next decade, driven by increasing government and public pressure, giving even the more reluctant companies no choice but to act against climate change or stop operating. Today's leaders on climate change are, therefore, securing competitive advantage both now and in future years. In summary, the issues contributing to the changing landscape are:

- *Carbon reporting* is fast becoming a standard of business accountability and will more than likely become mandatory in the short term future, enabling companies to be benchmarked based on their carbon footprints and incentivising them to implement efficient climate change solutions.
- *Consumer demands* will become more complex as awareness levels grow. Carbon-labelling of products is likely to become as progressively advantageous as standardised nutritional labelling became a few years ago, with more and more people wanting to understand the carbon footprint of the products they buy.
- With climate change achieving increased prominence in corporate strategy, businesses will be more likely to appoint an *in-house team of specialists* across all the relevant functions, including R&D, marketing, finance and communications/PR, to oversee the company's approach. Moreover, responsibility for climate change activities will tend to rest at a board or executive level.
- Recourse to *binding legislation*, such as a carbon tax on products with high carbon emissions or some form of climate change levy for companies using renewable energy, will become more frequent if the EU is to achieve its overall aim of a 20% reduction in greenhouse gas emissions in the EU by 2020.
- *Corporate communications and marketing* are being transformed as consumers' desire for more socially and environmentally responsible products increases.
- The *carbon offsetting boom* is likely to continue with offsetting companies becoming major partners with corporations in fighting climate change. Offsetting companies will also be under pressure to make carbon emissions credit trading more transparent, thus raising the price of offsetting.

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For further information on climate change actions by the FTSE250 or any of our other research publications, please contact +44 (0)20 8840 4450 or email fionab@article13.com.

Appendix

Case study examples profiling the activities of FTSE250 companies which were identified in our research as taking leadership in tackling climate change.

Case study 1:

Marshalls – in-house management and customer education

Marshalls, a British construction material company, has anticipated reduced demand for its products which are considered to be carbon intensive. This will result from increasing consumer consciousness about carbon emissions, climate change and sustainability issues. Marshalls perceives climate change as a strong potential commercial and regulatory risk for the sector in which it operates.

Marshalls has issued a Climate Change Policy that provides the framework for its range of programmes dealing with climate change issues. It is the only company in the FTSE250 providing customers with a carbon calculator. This tool allows customers to calculate the exact amount of CO₂ released into the atmosphere for each of the products they have bought, whilst raising consciousness about the impact of their purchases and the way they can reduce or offset this impact.

Marshalls also has an employee dedicated to carbon management of the company's operations. Notably, this person is in charge of providing the board with six monthly carbon emissions updates.

Case study 2:

Provident Financial – transparent reporting, employee education and supplier classification

Provident Financial, a provider of home credit with a successful credit card operation, perceives climate change as a major risk in terms of reputation and believes a failure to act will adversely affect its share price.

The company has published corporate social responsibility reports for more than six years and has more recently started to include the carbon emissions generated from its operations. Annual reduction targets are set and transparently reported on as part of the company's key performance indicator (KPI) system.

Provident Financial has switched to a renewable energy electricity provider. In 2006, it launched a green travel web page on the corporate intranet to help and encourage staff to reduce the carbon footprint associated with travel to and from the office.

Provident Financial also classifies its suppliers based on environmental criteria, ranging from those with excellent environmental management to those who have nothing in place. It works with suppliers that have poor environmental reports to improve their performance and it shares examples of best practice with its entire supplier network.

Case study 3:**Aga Foodservice Group – lobbying for sectoral reductions**

Aga Foodservice Group (AFG), the market leader in the premium consumer and commercial cooker markets, recognises it has a role to play not only as a manufacturer but also in enabling its customers to act as responsibly as possible in reducing their CO₂ emissions.

AFG has adopted a lobbying approach to encourage the whole commercial kitchen sector to become involved in a carbon reduction strategy. Its *War on Waste (WOW)* campaign aims at cutting the emissions of commercial kitchen equipment, whilst at the same time helping customers to reduce their energy bills. This is being achieved by providing customers with data on savings that can be achieved through use of energy efficient equipment; marketing savings related to carbon emission reduction as a unique selling point of a product and disseminating information on the Carbon Trust's interest free loan schemes.

The second strand of AFG's campaigning centres around distribution of a booklet entitled "Increasing Efficiency within the Commercial Kitchen". The booklet includes the amendments AFG wants to be made to the EU Councils Gas Appliance Directives that set European efficiency standards for kitchen appliances. This campaign was launched with an e-petition available on the UK government website.

Note: After this research was started, AFG sold its commercial kitchen branch to Ali S.p.a. As a unique example of climate change action, it was decided to include this case study in the final report.

Case study 4:**Carillion – full life cycle carbon management strategy**

Carillion, one of the UK's leading support services and construction services companies, is recognised as the UK leader in the field of sustainable construction. With the domestic housing sector representing around 27% of the UK's total CO₂ emissions, pressure on construction companies to reduce emissions from domestic households will continue to rise.

Carillion has designed a carbon strategy for the construction of sustainable buildings, including the reduction of carbon emissions at every stage of the building life cycle. This strategy includes construction, use and destruction. It is implementing efficient fleet management for the transport of materials to and from construction sites and conducts transport impact assessments on all major deliveries. Its CO₂ reduction strategy centres on limited the demand for energy; using renewable energy where possible and using fossil fuels as efficiently as possible.

Case study 5:**Henderson Group – socially responsible investment (SRI)**

Henderson Global Investors, a leading independent global asset management firm, is following a relatively new trend in investment in which investors' choices are not only driven by financial return but also by environmental, social and governance criteria. The company anticipates a shift in investors'/consumers' attitudes that could result in a loss of interest for funds that do not fully integrate climate change considerations.

Henderson is a member of the Institutional Investors Group on Climate Change (IIGCC), which is a forum for leading investment organisations and pension funds to promote assessment and active management of the investment risks and opportunities posed by climate change.

For the past two years Henderson has calculated and publicised the carbon footprint and carbon intensity analysis (ratio of carbon emissions to economic activity) of two of its socially responsible funds, in partnership with Trucost.

Moreover, with several other investment companies, Henderson has initiated a research project called "Managing the Unavoidable: understanding the investment implications of adapting to climate change". This research will assess the climate change risks faced by four sectors (electricity and water utilities, oil and gas and real estate) and investors to demonstrate the unavoidable physical impacts of climate change.