

Sustainable Management - Applying True Cost Accounting

The fundamental change from business and government as we know them today – to how we must know them in the future -- is the recognition that we must always consider environmental and social impacts with true cost accounting. The focus must change from short term profit (cash only) to long term appreciation of economic, social and natural capital. This revolution will create many opportunities for entrepreneurs who create businesses, services and products that enhance sustainability. It also offers many challenges for local, regional, state, national and global governance.

Sustainability is not simply about the environment. To be sustainable a community must have a healthy economy and programs, policies and traditions that provide support for community cohesion, cooperation, education, health and equity.

One of the first steps toward true cost accounting has been the effort to report and improve organizational sustainability. Growth in the number of sustainability reports has been quite rapid, but they must be extended to the world to mitigate the “race to the bottom.”

A growing emphasis on activity, product-, and enterprise-based true cost accounting will help allocate overhead and environmental and social costs to specific operations and products. This can help improve process-flow mapping, integrated substance and value chain management, and material flow analysis. These steps can improve efficiency, reduce loss and add value. Activity based and true cost accounting was first confined to manufacturing but it soon became clear that service companies, schools, government, and non-profit organizations also have processes and activities that convert capital, labor, materials and purchased services to create products/services and often a wide range of external costs.

True cost accounting needs to concentrate on things that matter. It is better to have a clear and concise understanding of a few issues that can be reported, monitored, and changed than a broad and incomplete vision of the entire operation with no actionable steps. Add value by focus.

True cost accounting challenges within an organization should include consideration of three levels of management, operations, tactics and strategy. The level of available information and management interest will help determine where to start. While most effort has been on strategic issues (as with sustainability reports) the immediate payoff possible with operational issues should be considered.

Operational management

Sustainability reporting and true cost accounting is most widely applied to operational decisions, such as waste minimization and disposal, human resource development, energy and water use, transportation impacts, material selection, and climate change gasses.

Tactical management

True cost accounting can be very effective in short and medium term (1 month - 3 year) management decisions to improve value, reduce costs and risk and gain tactical advantage over competitors. Midlevel managers who have true cost data can improve operations, supply chain and subcontractor performance, and reduce risk.

Strategic management

True cost accounting can be particularly valuable for long term decision making. TCA can help guide capital investment, product and service development, innovation through research and

development, and competitive advantage. TCA can identify risk and reduce exposure to predictable resource shortages, pending or foreseeable government regulation, changing consumer demand, and global climate change. Minimize risk by precautionary approach. Get ahead of legislation and beat competitors.

Shining brightly

True cost accounting for cigarettes or alcohol immediately reveals the long term problems of sustainability for these industries. True cost accounting for most current residential development will highlight the unsustainable nature of current planning and development efforts. True cost also make it clear what needs to be done to ensure sustainable infrastructure.

An Example

Outdoor equipment manufacturer Patagonia has been a leader in studying and acknowledging external costs. Founded by Yvon Chouinard in 1973, their mission is to '*build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis*'. Well presented in Chouinard's book **Let My People Go Surfing** (2005).



**We're in
business
to save
our home
planet.**

patagonia