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Beyond green

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Keys to effective BYOD policies

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How profitable are your products?

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Beyond green

Robust ESG initiatives help manufacturers do good — and do well

In today's highly competitive markets, it's critical for manufacturers to embrace environmental, social and governance (ESG) initiatives. While doing good may be its own reward, it's becoming increasingly evident that sustainable manufacturing processes and ethical business practices produce financial benefits. And mounting pressure from investors, customers, employees and regulators is rapidly transforming ESG from a laudable goal into a business necessity.

What is ESG?

In simple terms, these initiatives focus on three areas:

1. The environment component considers your company's impact on the environment, including the energy it uses, the waste it produces and the resources it consumes.

2. The social element examines your business's relationships with people, communities and institutions. It includes fair labor practices, worker health and safety, diversity and inclusivity, and your company's impact in general on the community or communities where it does business.

3. Governance includes policies, practices and procedures your company adopts to govern itself. Considerations include business ethics, openness and transparency, legal compliance, executive compensation, supply chain management, data protection, and product quality and safety.

To be a good "corporate citizen," it's important to recognize the impact of your company's activities on the environment and the people it interacts with — and to implement business practices that minimize any potential adverse effects.

Do ESG matters matter?

Pressure on manufacturers to adopt ESG practices comes from multiple fronts. Customers are increasingly considering ESG issues — particularly sustainability, environmental impact and fair labor practices — when making purchasing decisions. Similarly, a growing number of influential investors are making ESG performance a priority when deciding how to invest their capital. These stakeholders are interested not only in your company's ESG record, but also the records of your suppliers and other business partners.

Moreover, governments around the world are prioritizing ESG practices. Failure to comply with laws or regulations related to environmental issues (such as pollution and carbon emissions), social issues (such as labor relations, worker health and product safety) and supply chain issues (such as the use of conflict minerals and human rights violations) can lead to fines, remedial costs and reputational damage. In addition, governments may impose ESG standards on the companies they

do business with that go beyond what the law requires, placing additional pressure on manufacturers that rely heavily on government contracts.

Changes in the labor force are also having a significant impact. Manufacturers are facing a growing "skills gap," which requires them to compete for a shrinking pool of talented workers. And because younger workers are more likely to consider a potential employer's ESG practices in deciding where to work, ESG initiatives can provide companies with a competitive advantage.

Green factories reduce energy costs

Helping to save the environment may be reason enough for manufacturing plants to "go green." In addition, there may be significant financial benefits in the form of reduced energy costs.

To identify opportunities for reducing energy costs, consider conducting an energy audit to evaluate the efficiency of your equipment, systems and devices. Given the high cost of electricity and other utilities today, investments in energy-efficient lighting and equipment and in alternative energy sources, such as solar power, can pay off over the long run. Also, many manufacturers use smart devices, such as smart thermostats, to minimize unnecessary energy use.

You should also take advantage of federal, state and local tax credits and other incentives for investing in energy-efficient equipment and building systems. Contact your tax advisor for more information.

What are the benefits of ESG practices?

Adopting strong ESG practices may produce several significant financial benefits, including:

Higher sales. Customers are increasingly considering ESG practices in making purchasing decisions. Some may even be willing to pay more for "green" products.

Reduced costs. Focusing on sustainability can help companies identify ways to reduce their energy consumption (see "Green factories reduce energy costs" above), streamline their supply chains, eliminate waste and operate more efficiently. ESG initiatives can also help companies avoid the costs associated with government intervention and liability concerns, such as product liability lawsuits, recalls or boycotts.

Improved access to capital. ESG initiatives can provide companies with access to low-cost capital. Investors are increasingly considering ESG issues when choosing companies to invest in. Plus, companies that implement ESG considerations are often perceived to be lower-risk investments.

Greater ability to attract and motivate talented employees. According to consulting firm McKinsey, "a strong ESG proposition can help companies attract and retain quality employees, enhance employee motivation by instilling a sense of purpose, and increase productivity overall."

Generally, good ESG practices translate into better financial performance. According to McKinsey, more than 2,000 academic studies have been conducted on this subject. About 70% of the studies "find a positive relationship between ESG scores on the one hand and financial returns on the other, whether measured by equity returns or profitability or valuation multiples."

ESG reporting

To take advantage of these benefits, it's critical to communicate your ESG performance to customers, investors, business partners and other stakeholders. Many companies today are combining ESG information with financial performance data in an integrated report. In response, proposed Securities and Exchange Commission rules may require disclosure of certain ESG information. And reports that combine financial and nonfinancial information provide a more accurate picture of a company's long-term potential to create value than traditional financial statements. ■

Keys to effective BYOD policies

In today's fast-paced technological world, almost all workers have a mobile phone, tablet or laptop. Salespeople, customer service reps and managers may travel for work or work from home and use these types of mobile devices to complete business. Do manufacturers need to supply these to employees? Or is a bring-your-own-device (BYOD) policy something to consider?

Allowing access to your manufacturing company's systems on an employee's device presents risks. And you'll need to protect your company's data without violating employees' privacy.

Make the call

Rather than buying dedicated work phones, laptops and tablets for each employee, many businesses are tapping into workers' personal devices. BYOD programs enable employees to work anytime, anywhere, which promotes greater flexibility and productivity. Plus, employees appreciate the option to choose their preferred devices, leading to enhanced job satisfaction.

Because most employees already own these devices and tend to update them often, employers may be able to eliminate the cost of purchasing and updating devices. When calculating cost savings from a BYOD initiative, offset the equipment cost savings with the added costs of supporting multiple operating systems and devices.

Ask your IT department to provide a list of devices that it can easily support and that have acceptable levels of security. The more devices IT supports, the more time-consuming and costly your BYOD program will become.

BYOD programs also come with less obvious costs. *Employers* generally have less control over technology equipment and the confidential data stored on

employees' devices. And *employees* have less separation between their personal and business lives.

Put it in writing

Employers that allow their employees to use their own devices for work purposes need to implement a formal BYOD policy to minimize security and liability risks. A comprehensive policy anticipates what happens with the device in various situations, such as:

- If there is a voluntary or involuntary termination,
- If the device is lost, shared or recycled,
- If unprotected public wireless networks are used,
- If the device is attacked by a virus or malware, or
- If it's synced on an employee's home cloud.

Other questions to address include:

Payment policies. An employer might pay for a predetermined number of voice minutes and an unlimited data plan for employees. Any charges above that amount are the employee's responsibility.

Cell phone number. Who owns a phone number is a big deal for salespeople and service representatives, especially if they leave to work for a competitor.

Customers may continue to call a rep's cell phone, leading to lost sales for the enterprise.

Password protection. In general, mobile devices should lock if idle for five minutes and require a password or personal identification number to unlock. After a limited number of failed password attempts, the device should require assistance from the company's IT department to regain access. Multi-factor authentication (MFA) — requiring users to present a combination of two or more credentials to access various programs on firm devices — should be the standard for your employees.

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Employees who participate in BYOD programs should be required to periodically submit their personal devices to IT personnel for configuration, updates and security checks. And employers should reserve the right to revoke the BYOD privilege if users don't abide by the rules.

Protect user privacy

Employees must understand that participation in a BYOD program gives the company access to personal information, such as text messages and photos. However, the BYOD policy should state that the company will never view protected information, such as privileged communications with attorneys, protected health information or complaints against the employer that are permitted under the National Labor Relations Act.

In case your company becomes involved in a lawsuit, its data retention policies should address how data is stored on mobile devices and gathered during litigation. Keep in mind that the federal rules governing the production of documents, including electronically stored information in federal litigation, cover all devices, including personal devices that access the company's network.

Cover your bases

An effective BYOD policy will cover all relevant security and liability risks and be legally enforceable. If you haven't reviewed your BYOD policy, now's the time. And it's not enough to just have a written policy. Be sure each employee who takes advantage of the policy signs a formal written BYOD policy. Contact your attorney as well as an IT security expert to get started. ■

Get ready for the new lease accounting standard

After several postponements, the updated lease accounting standard is about to take effect for private companies. Late last year, the Financial Accounting Standards Board (FASB) voted unanimously against another delay.

That means companies that follow U.S. Generally Accepted Accounting Principles (GAAP) must adopt the new standard for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022.

Quick review

In a nutshell, the updated standard requires companies to report both operating and finance leases on their balance sheets (with the exception of short-term leases with terms of 12 months or less). Previously, operating leases didn't have to be recorded on the balance sheet. Pursuant to the updated standard, a lessee under an operating lease must record a "right-to-use" asset and a corresponding liability for lease payments over the expected term. Generally, the asset and liability are based on the present value of minimum payments expected to be made under the lease, with certain adjustments.

It's not unusual for manufacturers to have a significant number of operating leases for buildings, equipment, vehicles, technology and other assets. As a result, the updated standard, when adopted, will immediately increase your company's assets and liabilities, making it appear to be more leveraged than before. This can cause technical violations of loan covenants that limit your debt or require you to maintain certain debt ratios, so it's important to discuss the standard's impact with lenders and, if necessary, negotiate amended loan covenants.

Implementation guidance

For many manufacturers, the biggest and most time-consuming challenge will be to locate all of your leases and extract the data necessary to comply with the updated guidance. Leases generally aren't standardized, so reviewing them and gathering the required data can be a labor-intensive, manual task. You'll need to capture and analyze dozens of data elements, including lease terms, payment schedules, end-of-term options and incentives. Complicating things further, some of the data you'll need may not be found in the lease itself, so additional legwork may be required.

Another challenge will be identifying leasing arrangements that must be accounted for under the updated standard but aren't found in traditional lease agreements. If an agreement gives you the right to control an identified asset for a period of time in exchange for payment, then it will be considered a lease under the updated standard.

"Embedded" leases may be in service, supply, transportation or information technology agreements, as well as in certain contract manufacturing arrangements.

These "embedded" leases may be in service, supply, transportation or information technology agreements, as well as in certain contract manufacturing arrangements. For example, if a transportation contract gives you exclusive rights to, and control over, a specific vehicle or fleet of vehicles, you may need to treat it as an embedded lease and separate the contract's lease and nonlease components for reporting purposes.

Lease accounting software

Locating leases (including embedded leases), gathering data and analyzing that data for lease accounting purposes is a lot of work. To ease the burden, lease-intensive companies should consider using lease accounting software to automate the process of managing and tracking their leases and calculating their lease-related assets and liabilities. Contact your CPA to find out more. ■

How profitable are your products?

Most manufacturers have a good idea of their overall profitability, but what about the profitability of *individual* products? Unless you track the costs of manufacturing each product, you're missing an opportunity to maximize your profitability by fine-tuning your production, marketing and pricing strategies.

Doing the research

Determining product-specific costs can require significant work. You'll need to figure out the direct labor, material and other costs associated with each product and come up with a reasonable method of allocating indirect costs among your products. Indirect costs may include things like overhead (rent, insurance and administrative expenses) and executive compensation.

Once this is done, you'll gain valuable insights into the actual costs and profit margins of each product. Armed with this information, you can make strategic decisions about pricing products and focus your resources on manufacturing and marketing the products with the highest profit margins.

The results occasionally may surprise you. For example, you may discover that a product you thought was profitable is actually losing money. In some cases, it might make sense to discontinue the product, but not always. It depends on the product's contribution margin, which is calculated by subtracting a product's variable costs from its revenue. If a product's contribution margin is positive, then it's contributing to the company's overall profitability by helping to cover the company's fixed costs. Because those costs would be incurred regardless of whether the product is produced, eliminating it would likely hurt profits rather than help.

Identifying opportunities

If your company isn't tracking and analyzing product-specific cost information, you're essentially operating blind. Only by examining profit margins on a product-by-product basis can you identify strategies for boosting your company's performance.

Detailed cost information can also help you evaluate new business opportunities. Familiarity with your company's costs can help you determine whether a particular opportunity — a contract manufacturing job, for example — would be worth your while.

Getting started

Tracking product-specific cost information can be challenging, but the benefits can be significant. Enterprise resource planning (ERP) systems and other software solutions can help automate the process. Contact your CPA for help implementing a reliable, cost-effective solution. ■

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