ASHRIDGE

Accountability and Reporting:

New accountabilities, new networks, new leaders…

A draft report for the Core Team of the WBCSD's Accountability and Reporting Project

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CONTENTS

NEW ACCOUNTABILITIES, NEW NETWORKS, NEW LEADERS…

INTRODUCTION

In early 2004 the World Business Council for Sustainable Development commissioned the Ashridge Centre for Business and Society to research the evolution of corporate accountability in a number of leading companies.

In broad terms, the aims of the programme of work were to:

- map lines of corporate accountability to stakeholders through an examination of a limited number of functions (namely supply chain management and operations, human resources, sales, marketing and product development, finance, and public and corporate affairs)
- explore the socio-economic and environmental (sustainability) dimensions of corporate accountability at a function level, with a particular focus on priority issues and emerging dilemmas
- understand the mechanisms employed by companies to ensure responsiveness to stakeholders (such as employee incentive and reward schemes, supplier assessment procedures, risk management systems, external advisory panels, the use of standards and so on)

Desk research, review meetings and 26 in-depth interviews mainly with heads of functions in 13 leading companies were conducted. Further details about the interviewees are appended to this report. The participating companies were:

- 3M
- adidas-Salomon
- Amcor
- Anglo American
- Caterpillar
- The Coca-Cola Company
- Dell
- Eskom
- ING Group
- Neusiedler
- Nokia
- Roche
- Unilever

In selecting these companies, care was taken to ensure an international sample to draw on the experience of operating in a variety of cultures. The study companies also represent a range of sectors including manufacturing, FMCG, extractive, ITC, utilities, financial services and pharmaceuticals. This industry breadth was necessary because the importance of a given function, and therefore the sophistication with which it is managed, is determined to a great extent by sector. For example, supply chain management is much more important to a manufacturer than a financial institution, and so it is here that useful learning is most likely to be found.

It should be noted that the objective of this research was not to provide a representative picture of the way companies work. Rather it was to identify learning points through an understanding of the practices, attitudes and aspirations of senior managers leading functions in companies in the vanguard of corporate sustainability.

This report therefore has a clear purpose: to provide practical learning points for integrating sustainability in established corporate accountability mechanisms and so build business value.

So while it is for a general business audience, this report is likely to be most useful to sustainability and corporate responsibility specialists in their work with colleagues in other functions. It is structured around five sections, one for each function. At the beginning of every section, suggestions are made for engaging managers together with a description of their potential to influence stakeholders. This implies a move towards a more consistent organisational response to stakeholders and so the likely extent of their influence is described. This information was derived from the accountability mechanisms and key stakeholders identified by interviewees.

Next, emerging dilemmas and priority issues are described for each function together with opportunities to provoke better cross-function working. When presenting opportunities to collaborate across functions, a ►► indicates either evidence of business value for cross-function working or a strong indication of its potential. A ► indicates a lesser standard of evidence.

For a complete overview of issues important to a given function, it is necessary to scan all sections. So for finance for example, those issues which sit most comfortably with finance professionals are described in that section, but to see the range of their interests one would need to look at the other sections.

Given the disparate and fragmented nature of the various agendas that managers are working to, the report concludes with some general advice on mainstreaming social accountability. This draws on common areas of interest from across all functions and identifies five steps for change.

Reading this report in its entirety shows that as the perception of what constitutes corporate accountability has broadened, so new leaders have emerged – often from unexpected quarters…

SECTION 1: SUPPLY CHAIN MANAGEMENT AND OPERATIONS

> *"Supply chain management has played a big part in advancing sustainable development thinking in Unilever – along with others of course."*
> *(Uwe Schulte, Vice President Supply Management, Home and Personal Care Division, Unilever)* – **CONFIDENTIAL: AGREEMENT FOR ATTRIBUTION NOT YET SOUGHT**

Routes of engagement and network access

The contribution of supply chain management to a company's impact on society is often very considerable. As the environmental and social performance of suppliers has moved up the agenda of governments, companies, NGOs and others, so procurement managers have been drawn into the accountability debate. Most companies that have made efforts in this area concede that extending responsible business practice to their supply base has been a challenge. Given that pressure for change looks set to continue and given trends in supply chain management, this research offers suggestions on the best routes to improvement and presents some priorities for action drawing on the experience of some leading companies.

Supply chain management tends to focus on standards, auditing and training. This normative and sometimes compliance-driven perspective to accountability means that managers often place great stock by codes of practice, international standards and accreditation schemes. In recent years many have also developed a deftness in NGO partnering and awareness-raising techniques (such as supplier conferences and procurement agent training). Working with supply chain managers (particularly by helping develop codes and providing advice on standards) in a way that recognises the priorities identified below offers a point of entry.

If done well, such engagement offers the prospect of improved relations with a range of stakeholders. Supply chain managers often have established relationships with a distinctive range of organisations including NGOs, standard-setting bodies, communities local to major suppliers, specialist assurance providers, and naturally, suppliers. This of course, is far from a complete list, especially given the seniority of managers interviewed who often have responsibilities to maintain relations with investors, business associations and so on (and this caveat on completeness applies to all following sections). However, it does reflect a profile of useful stakeholder groups with which to build trust.

Emerging dilemmas and priority issues

The rise of constructive engagement
In recent years, supply chain management has been recognised as a function deserving of a greater role in strategy. This higher strategic profile, together with the trend towards supply base rationalisation, has provided new accountability opportunities. Engaging with suppliers to improve environmental and social performance (or anything else for that matter) is a resource-intensive activity. A focus on fewer and more strategic suppliers often makes such engagement a practical proposition. And as a consequence, supply chain management in many sectors has become less about tick-box compliance (although independent assurance is still important) and more about long-term commitment.

Winning hearts and minds along supply chains

For many companies, there has been a shift away from attempting to police supply chains. Instead, they are screening suppliers for compatible values or acting to influence their working culture. Values screening is seen as particularly important prior to joint investments and is often part of due diligence.

> *"We try to work with the best of the best in our supply chain... and part of the screening process involves selecting suppliers with compatible approaches and values. If in screening a supplier's values look incompatible with [company's], we will not work with them."*
>
> *"Changing culture in suppliers is important, but policing is also important, particularly for high risk suppliers. But no, policing can never be 100% effective – you can't be with suppliers all the time."*
>
> *"It is important to talk about differences in corporate cultures with your suppliers. This is done on a case-by-case basis on matters of principle although some principles, such as child and forced labour, cannot be compromised."*
>
> *"Culture change in suppliers will only be sustainable if they really believe it. Also challenge works both ways and suppliers are encouraged to be proactive. We recognise we have a lot to learn from them too."*

Patience and constructive engagement to improve performance

A policy of long-term engagement with suppliers on environmental and workplace issues is seen more and more as the practical route to better performance. As a consequence, auditing may be viewed as a reciprocal learning mechanism rather than pass or fail assurance.

> *"Not all of [company's] suppliers are completely in compliance with the ILO Core Conventions and so you can either engage or disinvest. We are working for change, and if the pace of change is not acceptable, then we will pull-out – as we did in Myanmar and as we would in China if we felt our customers thought that things were unacceptable. By the way, I think engagement in China is working."*
>
> *"Audit is never black and white, it is an opportunity for discussion."*
>
> *"We use SA8000... we do not require certification, but use it as a guide rather than as something to be applied."*

Also a priority for: ⏩sales, marketing and product development, and ▶ public and corporate affairs.

From supplier management to supply chain management

Companies are discovering that to manage workplace issues and environmental impacts in supply chains, they often need to go beyond first tier suppliers. Most commonly managers try to cascade good practice via their immediate suppliers, but they may also intervene directly further upstream. The ability to exercise a degree of control over suppliers is implicit in the notion of supply chain management. However, it is important to recognise limitations: the power to effect change in the absence of a direct commercial relationship is rarely available, even in vertically integrated industries.

Getting dragged up the supply chain

There is evidence that well-intentioned actions to improve the sustainability performance of suppliers can result in poor practices simply being pushed to subcontractors and suppliers further up the supply chain. Many supply chain managers are attempting to address this impact shifting, but they recognise it is not going to be easy.

> *"We require our suppliers to promote environmental and social responsibility to their suppliers... so we are trying to push this up the supply chain – but it's very difficult to know if this is working."*
>
> *"Usually [company] does not go beyond the first tier in our supply chain management. But in some cases we have been obliged to – including to work on social and environmental problems."*

The tension between an internationalist and a devolved approach

Corporate responsibility means different things to different people. In China it is often understood to represent something quite different from that in the Western Europe for example. Managers in international companies routinely have to reconcile corporate values and priorities with local concerns. So while this tension is familiar to many, it is often supply chain managers operating a supply base across a diverse range of cultures where this challenge comes into sharp relief. International standards are useful, as is the kind of local knowledge that comes from community involvement.

"Soft law" filling the vacuum left by the absence of effective "hard law"

So much of corporate responsibility pivots around the respective responsibilities of government and business, particularly when operating in or sourcing from countries with lax regulatory regimes. Companies are turning to international standards for some answers – but not without some reservations.

> *"Standards are very important and we have found SA8000 very useful. It is very helpful because it takes the UN Declaration on Human Rights and the ILO Fundamental Conventions and puts them in a useful form."*
>
> *"I sometimes disagree with the blanket use of standards, they can be counterproductive. Freedom of association is difficult in some cultures. Unions are not always free and not always working in the best interests of the workers – they often just focus on irrelevant or political things – workers' councils can often be more effective. However, the ILO convention on freedom of association is something that [company] feels it should support and is working to promote."*

Also a priority for: ▸ sales, marketing and product development, and ▸▸ public and corporate affairs.

Global consistency, local sensitivity

The challenge for companies to maintain a globally coherent approach without being perceived as "imperialist" or blind to cultural differences remains a priority. Developing a closeness to communities provides greater sensitivity to local perceptions of corporate behaviour, and the option of an early response.

> *"There are complications in being an international business. We have to understand different ways of doing business in different countries, but without losing our values."*
>
> *"Sustainability issues vary according to geography. We are mapping these differences through our consumer research, including attitudes towards CSR."*
>
> *We try so that we are so closely integrated with local communities that if we don't do the right thing, it is felt immediately inside the firm."*

Also a priority for: ⏩human resources, ⏩sales, marketing and product development, ⏩finance, and ⏩public and corporate affairs.

SECTION 2: HUMAN RESOURCES

"Sustainability pushes us to be better. It has definitely helped me and HR to be better" (Matthias Malessa, Head of Global Human Resources, adidas-Salomon) – **CONFIDENTIAL: AGREEMENT FOR ATTRIBUTION NOT YET SOUGHT**

Routes of engagement and network access

One of the best established links between being seen as a responsible corporate citizen and business value is in employee recruitment, retention and motivation. In addition, recent high profile efforts to professionalize the CSR role has, conversely, focused attention on developing the necessary competences in general managers. Human resources directors could therefore prove powerful allies for those charged with mainstreaming social accountability.

Human resources directors stressed the importance of corporate values, business principles and, unsurprisingly, training and development. They also felt that community relations was very much part of their remit through sponsorship, corporate community investment programmes and employee volunteer schemes.

A feature of modern human resources is the close interest taken in the company's reputation with those outside the business as well as amongst employees. As a consequence, benchmarking has become more influential in the profession, especially published benchmarks. This mindset puts a great deal of stress on the role of (potential) employee surveys, rankings in "good companies to work for" indices, external advisory panels and other mechanisms to compare performance between companies.

Executive development remains the most obvious route to building a workforce more attuned to a company's operating environment. Formal training programmes are still king, but the value of peer-to-peer learning and community involvement is increasingly recognised.

So while human resources as a function may not offer access to an extensive range of stakeholders, it does tend to operate with strong relations with educational institutes, foundations, regulators, local communities, specialist rating agencies and so on.

Progress against benchmarks and developing an understanding of the executive development portfolio is therefore a good starting point to working with human resources. Marrying this information with corporate sustainability priorities and the issues presented below (which are mainly about implementation rather than dilemmas), provides a basis to enlist the energies of HR directors and agree priorities.

Emerging dilemmas and priority issues

The value of values

The wider view of what constitutes corporate accountability raises the profile of organisational values. Different stakeholder groups have different, often competing expectations of companies. Resolving them is not easy, but statements of corporate values and business principles are a useful, practical compass for all.

Values-based leadership, echoes of the founder and alpha CEOs

Companies with a history of responsible business practice (often because of the "founder's ideals") or with strong leaders with no inhibitions in driving values throughout the organisation (sometimes their own!), operate with clarity.

> *"We [human resources] play an active role in encouraging better behaviour. I believe that a values-based approach among employees is the way to go."*

> *"We are not just about being the best we can be, we are about doing the right thing too – we know what that means and everyone knows it comes right from the very top."*

> *"Working in a way consistent with our values helps us when confronted with competing expectations and demands."*

Also a priority for: ⏩supply chain management and operations, ⏩sales, marketing and product development, ⏩finance, and ⏩public and corporate affairs.

New competences and a learning culture
The diffusion of social accountability from specialists to mainstream business functions has had important implications for human resources managers. Developing new competences has been a priority. This in turn has necessarily helped engender a learning culture – a long time objective for many HR directors. If a company is not learning at least as fast as the world around it is changing, it is dying.

New accountabilities, new employee competences

The skills and knowledge of employees need to change if companies are to meet the challenge of sustainable development.

> *"Our last CEO left, at least in part, because he was insensitive to the company's role in society… he was incapable of realising that sometimes the evidence doesn't matter as much as the perception."*

> *"We run our own classes in business ethics where managers are encouraged to take the larger view of situations. Our training is also about helping people share a problem early so that it can be tackled long before it gets big… the worst thing an employee can do is carry the burden themselves."*

> *"Leaders receive a lot of training and development in this company. We continue to develop values and emotional intelligence in leaders, intellectual scanning, the ability to spot dilemmas both in the community and in the business, and cultural awareness."*

> *"The ability to work across functions is important. So for example, lawyers are involved in our sustainability reporting from an early stage. We work together to deal with problems while they are still small. This means we are all on the same plane right from the start and can take timely action."*

Also a priority for: ⏩public and corporate affairs.

The accountable organisation, the learning organisation

A focus on corporate accountability helps foster an outward-looking, more humble, learning culture.

"A sustainable development mindset pushes us to be better – it has encouraged a focus on performance, a consistent eagerness to improve and continual learning."

"There has been a revolution in [company] over the past two years. We've moved from a defensive posture to engagement – we've become listeners."

"Big companies have to become small again to be more sensitive to local communities. Small companies are almost by definition good corporate citizens because they are so integrated into the community – CSR is almost automatic to them. They would be shunned if they were irresponsible. We can learn how to get close to local communities again from small companies."

Also a priority for: ⏩supply chain management and operations, and ⏩public and corporate affairs.

Some lessons are harder than others

Partnering with those outside the company is rarely easy. As the examples below illustrate, it may be done for a variety of reasons and is an inevitable extension of stakeholder consultation. HR directors are supporting such initiatives seeing considerable potential to build and protect business value.

Partnering to learn from your harshest critics

It can be frustrating and uncomfortable, but there is great value in engaging with and learning from NGOs – even, where they will allow it, the more strident campaigners. They offer distinctive perspectives and are a source of expertise.

"I'd like to see NGOs recognise that while there will be some issues where we can't agree, we can and should concentrate on those areas where we can work together. Why not work on common ground, and agree to put the more contentious things to one side... for the moment at least."

"[Company] intends in the future to partner with campaigning NGOs, but we haven't yet got the know-how. Our intentions are good, but we need time to develop. And no, there is not full consensus in [company] that this would be the best way forward."

"Multinational corporations and NGOs have to develop a common agenda on standards, not just stick to the 'chase and shame' game. We need dialogue on a practical, joint approach to addressing these issues."

Also a priority for: ⏩supply chain management and operations, and ⏩public and corporate affairs.

Credibility by association

Companies recognise that they operate in a low trust environment and that this makes doing business difficult. Until this changes, some are adopting high profile outsourcing strategies involving organisations which enjoy greater credibility with government and others.

> *"We do work with independent bodies, including academic institutions, for credibility and to bolster our position. The R&D we fund is of course independent and so we do not want to influence how it is done… but naturally we do influence what is researched. The results carry more weight coming from them than us."*

Also a priority for ▸ supply chain management and operations, ▸▸marketing and product development, and ▸▸public and corporate affairs

Empowering and motivating employees
Human resources directors in leading companies see a clear link between corporate responsibility and business value – from their perspective the argument has been won. They also see a reservoir of employee goodwill and enthusiasm, and so the priority is to secure employees' discretionary effort and encourage cross function working through aligned incentives and consistent messages.

The war for talent

HR directors and others are convinced that a reputation for corporate citizenship is important for recruitment at all levels in a company (not just the graduate intake), and also for retention. This has implications for internal as well as external communications.

> *"People are proud to work for [company]. Pride in one's employer is a grossly underestimated factor. Of course there is a lot of talk about pay and conditions, but don't forget the dinner party factor."*
>
> *"[Company] has not been seen as an attractive employer in the sector because people believe that we do not have good enough ethical standards. This is why I am doing some employer branding. So, things may not have changed much, as people are slow to adapt to the facts and the reputation of a company is difficult to change, but it has to happen."*
>
> *"I joined [company] not least because of its values – that made joining a lot easier."*

Also a priority for: ▸▸sales, marketing and product development, and ▸▸public and corporate affairs.

Corporate citizenship means individuals taking the initiative

All employees need access to management systems that empower them to be proactive in protecting the firm's reputation. At its most ambitious, some companies are even exploring the possibility of "open book management" where all information is available to employees unless it is sensitive, rather than being supplied on a need-to-know basis.

> *"We do a lot to encourage employees to take responsibility for the way the company operates. A good example is our whistle-blowing initiative which has recently been set up and is run by an independent external body."*

> *"Competency frameworks are not working – not just in [company], they don't work anywhere. [Company] now assesses the contribution and leadership of the individual... it is tailored to your role and capability to create and protect value. It is always focused on the levers you have in your hands."*

Also a priority for: ⏩supply chain management and operations, ⏩sales, marketing and product development, ▸ finance, and ⏩public and corporate affairs.

Finding the company-wide synergies

Many senior managers stressed the importance of identifying common areas of motivation across the company to focus on priorities and catalyse action. In that sense, an understanding of social responsibility was often reported as a force for cross-function cooperation and corporate cohesion.

> *"For sustainability to be fully part of the business, it needs to be part of the business model. There is a sustainability liaison committee that ensures that it is integrated across all divisions and functions... it helps us to understand the main challenges for the whole company going forward."*

> *"My key objective for the future is to motivate employees. Time and attention demands mean that it will be necessary to find synergies with everything else going on in the company."*

Also a priority for: ⏩supply chain management and operations, ⏩sales, marketing and product development, ⏩finance, and ⏩public and corporate affairs.

Aligning employee incentives and rewards with sustainability objectives

Corporate responsibility risks being perceived by employees as superficial or even as cynical public relations without the incentives to underpin it. Leading companies recognise that this is a key element of integrating sustainability.

> *"All employees have an agreed contract with HR. It is monitored with performance bonuses based on economic, social and environmental performance. It sends a signal."*

> *"I would say between 15 and 20% of employees have sustainability criteria as part of their appraisals and this would represent at least 10% of a person's bonus. Perhaps another 20% have project-based sustainability criteria."*

Also a priority for: ⏩supply chain management and operations, ▸ finance, and ▸ public and corporate affairs.

Pension schemes in the firing line… again

Further, if employees are to buy into a company's stance on corporate responsibility, it must be seen to extend into all areas. Many in the SRI community now suggest that responsible companies should ensure their values are reflected not only in their operations, but in the companies they choose to invest in – including via the investment strategy of occupational pension funds.

> *"I believe our pension fund should invest in companies that create value, and these are sustainability companies."*
>
> *"Maybe our pension fund should be aligned with our company values… a defined contributions scheme should offer an 'ethical' option."*

SECTION 3: SALES, MARKETING AND PRODUCT DEVELOPMENT

> *"We put a lot of resources into our sustainable development initiatives. There are real costs as well as real benefits – but they don't look that expensive when put in the context of other marketing and brand management initiatives."*
>
> *(Chris Pomfret, Marketing and Environment Coordinator, Unilever)* – **CONFIDENTIAL: AGREEMENT FOR ATTRIBUTION NOT YET SOUGHT**

Routes of engagement and network access

Sales and marketing has found itself at the centre of some heated and very high profile debates. Product development teams are also increasingly required by governments and market sentiment to take environmental and social impacts into account. There was broad agreement amongst interviewees that pressure for change can only increase.

Marketing directors in particular showed themselves to be very outward-looking and placed great stress on reputational issues. The function is therefore sensitive to changes in the perceptions and expectations of an unusually wide range of stakeholders including: NGOs, government, international agencies, communities, opinion leaders and the media – and of course consumers. In addition, they routinely work with a range of service providers, lobbyists, academics, think-tanks and industry associations.

Sales, marketing and product development managers therefore find themselves held accountable to some extent through consumer surveys, international product standards, independent research, NGO partnering, product certification schemes, and marketing and product information. And they are particularly proactive in PR campaigns, sponsorship, NGO partnering, consumer education programmes, community outreach efforts and corporate community investment programmes.

The breadth of their stakeholder relations means that there is no one obvious route to involving them more in sustainability issues. This is not least because many already practice broad-based stakeholder engagement, although not by that name. Rather the issue here is one of coordinating their activities with corporate level accountability strategies to ensure a consistent and socially responsible approach. Sales, product development and particularly marketing managers may therefore be seen as a critical source of stakeholder intelligence and a channel through which to engage influential people and organisations. Their usefulness will only grow as ever greater attention is directed towards market responsibility and the impact of products (see below).

Emerging dilemmas and priority issues

Marketplace responsibility
Sales, marketing and product development directors are aware of the scrutiny they are under. The greater focus on those areas where companies have most impact means that product and market responsibility has come to the fore. Encouraging better environmental performance in financial institutions is one thing, questioning what a reasonable level of profit should be for a financial product is quite another.

The social verses economic responsibility dilemma

Product responsibility is a growing concern for many companies. In the past, it was mainly those in "socially important" sectors such as pharmaceuticals and utilities that faced close scrutiny. Today, the net has been cast much wider to include the food, financial services, media and many other sectors. Access, pricing, responsible marketing, the responsible use of products… this is where the attention is going to be as the corporate responsibility movement matures.

> *"There is an ethical role for our company here, especially in poor countries. But our products are often very expensive to develop and manufacture and this presents a dilemma. We decide what we can do on a product-by-product basis, weighing social responsibility against economic responsibility. We must make sales to do R&D."*

Also a priority for: ⏩public and corporate affairs.

Responsible profit-making, but not profiteering

While some markets will stand a sustainability price premium, there is a risk of being seen as an opportunist and a profiteer. It is a fine line, but unjustified premiums could damage the market for all sustainability products.

> *"Concern for the environment varies according to country. We are mapping this and the premiums people are prepared to pay for sustainability products using an independent market research company. The results are interesting."*

> *"It's fair enough to reflect higher production costs in the price of a product. On the other hand, this should not be seen as an opportunity to profiteer… Yes, I think it is happening in some markets."*

Also a priority for: ⏩public and corporate affairs.

Getting the basics right: talking to customers and building markets

Bringing to market products with "social characteristics" does not obviate the need to do the basics if customer satisfaction, let alone consumer delight, is to be achieved. There are real commercial opportunities, especially with corporate and government customers, as long as it is recognised that socially responsible products do not guarantee competitive advantage. Product, place, price and promotion – these are as necessary as ever.

Corporate customers shaping markets

Where customer pressure for socially responsible products exists, it tends to come from organisations, not individual consumers. Perhaps this is where marketing efforts should be concentrated.

> *"The report published by that NGO raised questions from customers. And when customers ask questions, we start to pay a lot more attention – not least because in this case they came from large customers... It [corporate responsibility / sustainability] is important in product innovation... it allows some anticipation of shifting customer expectations.""*

> *"Corporate customers are more interested in these issues than individual customers. Joe Sixpack doesn't care so much – much less than we like to admit."*

Also a priority for: ⏩public and corporate affairs.

Sometimes perceptions matter more than facts

A new socially responsible product can be better in all regards than the product it replaces – that is, in all except market acceptance, if consumers' perceptions are not taken into account. In some markets for example, "green" products have been allowed to become associated with a compromised level of performance.

> *"Consumer prejudices and habits are why some new [socially responsible] products have not been a success. This is especially true given the natural suspicion about our sector. But the creation of new markets will continue and we will be instrumental in consumer education."*
>
> *"In marketing we assess perceptions as well as fact for areas of vulnerability and opportunity. So packaging may not have a big environmental impact (according to LCAs), but consumers think it does and we have to recognise that."*

Also a priority for: ⏩public and corporate affairs.

Sustainability as the tie breaker between products

Socially responsible production methods and a reputation for responsible corporate citizenship are viewed by marketers as a differentiator between products... all other things being equal.

> *"As long as performance, price and place are right, then corporate responsibility can become a differentiator, although a significant price premium is not possible. But anyway, environmentally sound products are often cheaper and we take a total life cost approach."*
>
> *"Even when a customer is interested in environmental issues, performance and to a lesser extent price will override them."*

Also a priority for: ⏩supply chain management and operations, and ⏩public and corporate affairs.

Customer accountability and building markets

Building markets for sustainability products often requires cooperation between companies and their corporate customers – and this is all too often absent. Awareness raising and educating customers is key.

> *"Customers will not pay more for a product than they have to. And it's a chicken and egg situation... we need volume to bring the cost of an environmentally sound material down to a cost-effective level, but no customer, not even so-called socially responsible ones, will pay slightly more even over a limited period to help build the market."*
>
> *"For our FSC certified product, you only get a competitive advantage if you make it. You need to educate customers and intermediaries about the FSC scheme and the issues it addresses. I think we have been reasonably successful in creating a market and we have managed to raise awareness... but we'll conduct some independent market research to confirm."*

Also a priority for: ⏩supply chain management and operations, and ⏩public and corporate affairs.

Brands: a sustainability opportunity

If corporate accountability is ultimately about society and quality of life, this surely represents a brand-building opportunity as well as a risk. Linking products with values and lifestyle is central to brand management. Consumers are becoming more sophisticated in their understanding of brands and where they come from.

Using company reputation to build the brand

The difficulty in insulating a company from its brands is increasingly recognised. Rather than seeing this just as a risk, smart companies are turning it into an opportunity.

> *"Brands are about lifestyle, values and self-image... but people want to know more about the company behind the brand these days and this trend will continue. This could mean that sustainability values will become more important – but commodities are more problematic."*

> *"I take responsibility for brand reputation (based on the quality of products) and community involvement (to build the company's reputation). But they are linked. You cannot have a successful brand, at least not on a sustainable basis, without an equally strong corporate reputation."*

Also a priority for: ⏩public and corporate affairs.

Brands, politics and cause-related marketing to the extreme

Some brands are closely associated with a country, its culture and its way of life. This can be a strength but, particularly in the current climate, it is also an exposure. At the extreme, brands are taking markets beyond "good causes" and into radical politics. Some companies feel these developments need to be addressed, as evidenced by the recent establishment in the US of "Business for Diplomatic Action". After all, for some brand-based companies, reputation is everything.

> *"The brand is closely associated with an American lifestyle... which in some countries could be an issue."*

> *"We know about these new [radically political] brands of course, and they are an interesting development. But at the moment they are not a big issue for us... but if they do become competition, then so be it."*

Also a priority for: ⏩public and corporate affairs.

SECTION 4: FINANCE

> *"In the future, Anglo American will continue to focus on corporate governance, and the balance between shareholders and stakeholders. And clearly then, finance has a role to play."*
> *(Mike Norris, Head of Financial Planning and Analysis, Anglo American)* –
> **CONFIDENTIAL: AGREEMENT FOR ATTRIBUTION NOT YET SOUGHT**

Routes of engagement and network access

As many corporate sustainability and responsibility specialists will confirm, it is often more difficult to secure the active involvement of finance than just about any other function. But as the issues described below demonstrate, things are changing – to a degree at least. If corporate responsibility really is influencing the way finance professionals work, perhaps this is the strongest indicator yet of lasting and significant change.

Finance directors are for the most part driven by standards and regulation. Barriers to reform in such a tightly codified and regulated area of management are considerable. Further, a strong focus on fiduciary responsibility means working relationships with a comparatively narrow range of stakeholders, although they do offer an especially good understanding of investors of course – arguably the stakeholder group which is first amongst equals.

Established means by which they are held accountable include: compliance with standards, investor surveys, investor indices, corporate reports, the release of financial results, performance forecasts, investor briefings and road shows, and other channels of communication with investors such as AGMs. As a consequence they also offer strong relations with assurance providers, regulatory authorities, service providers, analysts and lobbyists.

Even though the avenues to influence finance professionals are limited, this is clearly not a constituency to be ignored. Their relations with investors offer opportunities. The business case for corporate responsibility needs to be made better to finance directors and made in their own language, so that they in turn can make it to mainstream investors. As the points raised below show, the finance function sees itself as having a limited, discrete but important role to play. And it centres on improving communications and relations with investors.

Emerging dilemmas and priority issues

A focus on reporting

Finance professionals are used to producing information for investors which reflects on past performance. The more wide-ranging, forward-looking approach that sustainability prompts in corporate reporting is welcomed by leading companies, as is the broadening of the target audience. But for some finance directors, the disclosure of non-financial information has yet to demonstrate its value.

Towards integrated financial and sustainability reporting

As a first step towards fully integrated reporting, some finance managers suggest they take the initiative to ensure that "socially important" financial information is disclosed in a form accessible to non-specialists.

> *"As a first step towards more integrated reporting, maybe companies should focus on socially important information. That is, information of wider significance than conventional financial indicators. An example would be taxes paid by region and by country."*

> *"There is a risk of being perceived as cherry picking in the way you report. By keeping in mind your biggest social impacts, you provide meaningful, fair and balanced data, and much of this will be financial data."*

Also a priority for: ▸ public and corporate affairs.

Don't try to be all things to all people

Disclosure is not transparency. Materiality, that is the relevance of disclosed information to the company and key stakeholders, is the top priority in reporting. Transparency is about providing the right information and in the right form to aid decision-making. This for example, is why there is increasing resistance to reporting social information at the global level and a move towards providing information which is of more use to local stakeholders.

> *"If an issue is key to a stakeholder group and material to business value, then [company] deals with it. All our key activities are ranked for risk, such as safety risk. We calculate risk as the chance of an event happening multiplied by the consequences if it does. The risks are then ranked using a statistical model to show the most material risks."*

> *"We do employee attitude surveys although they are not the same everywhere. We do not want to report global surveys as they hide local differences."*

Also a priority for: ▸▸ supply chain management and operations, ▸▸human resources, and ▸▸public and corporate affairs.

Clinging to the financials – money as the universal sustainability metric

But not all are convinced that integrated reporting is the way to go. There is a feeling among some finance professionals, expressed in this research and previous studies, that financial information transcends all non-financial information. This view may not be held by the majority, but the belief that anything important will eventually be reflected in a conventional financial measure (and so they are sufficient in themselves), represents a significant strand of opinion.

> *"Financials come first because sustainability issues will eventually show up in the financials – but my view on this point may not be typical in [company]."*

> *"We need to link non-financials, such as employee satisfaction, with financials, even if only 70% causality is possible. Dollars are more meaningful and influence real decisions."*

> *"Dollars bring non-financials to life and then you can set about making quantifiable improvements. Non-financial information can only become real to the extent you can put it in dollar terms."*

Sustainability is as much about the future as the here and now
It is usually put that sustainability has three dimensions: the economic, social and environmental. But it could be said that there is a fourth – time. A deliberate consideration of time horizons is also absolutely necessary for effective strategy. Senior managers in general and finance directors in particular report that a focus on corporate sustainability has been useful in planning for future success.

Corporate sustainability as a force for real strategy

Moving from a focus on quarterly financials to planning over longer time horizons is not easy, but who said strategy should be easy? A sustainability mindset and the associated wider view of accountability helps companies come to terms with long range planning.

> *"Accountability and sustainability helps you lengthen your time horizons… in some areas of my work from two years to five, seven or even 15 years."*
>
> *"Sustainable development can make your life harder as well. For example, the safety performance of the group is the first thing discussed at every board meeting and failures mean some pretty tough questions. But good companies don't shy away from the tough questions. And good companies look beyond what happened today and plan for the future."*

Also a priority for: ⏩supply chain management and operations, ⏩human resources, ⏩sales, marketing and product development, and ⏩public and corporate affairs.

Caught between the long- and the short-term

Have the recent corporate scandals and difficult market conditions caused investors to review their expectations on rate of return? Some are promoting what they see as a more realistic attitude, particularly to long-term institutional shareholders. However, most senior managers still report a strong emphasis on short-term results.

> *"I want [company] to grow safely, to deliver returns to shareholders and stakeholders at a realistic rate over a realistic period."*
>
> *"It is easy to make short-term profits and destroy people's lives. Companies that do this have a distorted view of themselves. I want [company] to grow safely while delivering returns to shareholders. We are in pursuit of reasonable returns, not grievous returns."*
>
> *"The focus on quarterly results is inevitable, not least because investors still want them and because long-term problems show up first in the short-term results."*

Also a priority for: ▶ public and corporate affairs.

The attitudes of investors are changing, but they could do with a push
There are mixed views on how influential the SRI community is. But all agree that engaging mainstream analysts and investors remains a challenge, although it is one that some leading companies are rising to. They are making the business case for corporate responsibility with reference to efficiency, the improved management of risks and liabilities, market opportunities and licence to operate.

It's not just stakeholder consultation with investors, it is an opportunity to educate

A small minority of mainstream investors and analysts understand sustainability, although the worth of non-financial information is now more widely recognised. They strictly limit their interest in environmental and social issues, such as during mergers and acquisitions. So leading companies are taking the initiative to explain sustainability and why it is to their advantage to take more of an interest.

> *"When [company] acquires a company, these days I have to work with others to understand the financial implications of environmental obligations. For example, I work with frontline professionals so that I can put a monetary figure on environmental liabilities…so in these circumstances, it can't be ignored."*
>
> *"Some of our shareholders and investors have never had a passport… we need to encourage them to understand the world in which we do business."*
>
> *"I may have a jaundiced view of institutional shareholders, but they do not have an interest in or knowledge of our industry. They do not understand business and have never run a business. If they were less ignorant they could be a help, but they're not at the moment."*

Also a priority for: ▸ sales, marketing and product development, and ▸▸public and corporate affairs.

SECTION 5: PUBLIC AND CORPORATE AFFAIRS

> *"The sustainability function is the closest partner of the public affairs function."*
> *(Barry French, Director of Public Affairs, Dell)* – **CONFIDENTIAL: AGREEMENT FOR ATTRIBUTION NOT YET SOUGHT**

Routes of engagement and network access

While this report suggests that social accountability is becoming better embedded in leading companies, there is still a long way to go. There is certainly still a need for cross function specialist teams at the corporate level.

But if there is one function above all others capable of taking accountability to the next level, it is public and corporate affairs. Sustainability specialists apart, generally speaking it was public affairs directors who showed the most sophisticated understanding of corporate accountability.

They offer expertise in developing corporate values and business principles, NGO partnering, political lobbying, media tracking, stakeholder mapping, stakeholder engagement and scanning for emerging regulation, amongst other things. They also understand the utility of advisory groups, public surveys, shareholder briefings and road shows, standards, employee motivation schemes, customer complaints, investor and analyst surveys, and corporate reporting and verification.

As a consequence, public and corporate affairs was, by far, the best connected function (especially public affairs) with an excellent overview of stakeholder perceptions and expectations. They provide access to: shareholders, investors, analysts, industry associations, NGOs, government, international agencies, lobbyists, assurance providers, rating agencies, communities, suppliers, customers, opinion leaders, media – and more besides.

It is not just the extent of their promiscuity which is impressive, it is the way they develop and maintain these relationships. Their core competences, many of which pivot around relationship management, negotiation and people influencing skills, are those needed to manage stakeholder relations, win internal debates and drive change. Corporate sustainability specialists should be pushing against an open door. The objective here therefore is to recruit the expertise of the function to the sustainability cause. For many corporate and public affairs directors this will involve a radical change, but for those in leading sustainability companies it may be no more than a shift of emphasis.

Emerging dilemmas and priority issues

Not just understanding the regulatory environment, but changing it
Some critics of corporate responsibility regard it as nothing more than a cynical ploy to deter legislation and regulation. Others see such voluntarism as a highly desirable way to channel the energy and enterprise of the private sector to address social problems, particularly where companies operate in countries where regulation is ineffective. Regardless, leading companies recognise that their relations with governments and regulatory bodies are under examination as never before – hedging in lobbying positions is becoming a risk in itself.

In defence of voluntarism and visibility of the regulatory leading edge

Trailblazers in corporate responsibility are influencing public policy (both "hard" and "soft" regulation) through their participation in consultation exercises and policy fora.

> *"[Company] has actively promoted the triple bottom line approach. And given our relationship with government, which is generally supportive, this has meant that we have been invited to contribute to public policy consultations with far-reaching consequences."*
>
> *"In Europe, governments are more aggressive on the environment. Their approach is 'get it right or be regulated', and we have to respond to that."*

Also a priority for: ⏩supply chain management and operations.

Responsible lobbying is not a contradiction in terms

Corporate lobbying is often viewed as incompatible with corporate accountability given the lack of transparency and its rather murky reputation. But accountability concerns are beginning to shine light on these activities and socially responsible companies are lobbying to ensure that good companies are rewarded at the expense of the bad.

> *"The risk is that society is not moving towards this [sustainability] agenda fast enough; companies cannot progress alone. Government, but also NGOs, competitors and others need to advance too."*
>
> *"We need to engage with the agenda and not just leave it to government to decide where the boundaries of CSR lie."*
>
> *"For one initiative, we were too far ahead of the game. Companies are often more advanced than governments and we need to encourage them to catch up."*

No more Mr Niceguy – whistle-blowing as a business tactic

Some companies are losing patience with irresponsible competitors and inadequate regulatory oversight. Whistle-blowing and direct action against unfair competition may become more prevalent.

> *"Some of our competitors deliberately flout the law on emissions and they've got away with it in the past, despite the possibility of heavy fines and even custodial sentences, because the local regulators just turned a blind eye. Now I go personally to the Environment Agency to complain of illegal and unfair operations, and as a result steps have been taken."*
>
> *"[Company] would take steps to prosecute directly competitors who do not obey the law. So far, this has not been necessary, but as a last resort – certainly."*

Stakeholder engagement – learning the true value of a buzzword
Corporate and public affairs professionals know the value of good relations with influential individuals and organisations. If these relations are managed well they put obstacles in the way of undesirable developments, provide access to useful networks, perspectives and expertise, and are a continuing source of commercially important information. Stakeholder engagement is jargon for maintaining honest and responsive relationships with people capable of affecting the success of a company – in short, it is about building trust with the right people.

Alertness to a changing world for a more resilient company

Companies are starting to recognise the value of stakeholder engagement in identifying emerging risks – risks that conventional assessments often fail to anticipate. A systematic approach to accessing new networks provides for a greater degree of future proofing.

> *"In the future [company] will have to become even more attuned to expectations and perceptions... as well as <u>rising</u> expectations they are going to become more and more <u>fragmented</u>. Previously, just human rights and the environment were the main issues. Now there are so many issues it is becoming difficult to understand them all. Listening to stakeholders is a route to understanding."*

> *"In the future, I want to be in a position to identify and deal with contentious issues before they become a problem so that I can protect the brand. We need much better visibility of emerging standards and regulation... and ample time to contribute to them."*

> *"I network with others to help identify risks… and this includes sharing information within the industry on non-competitive issues."*

Also a priority for: ⏩supply chain management and operations, and ⏩sales, marketing and product development.

The rise of (multi-) stakeholder dialogue

Involving a range of stakeholders in discussing the dilemmas a company faces allows them to understand competing pressures first hand and makes for a more informed dialogue.

> *"...we established tripartite discussions about the plant... we, the regulator and representatives of the local community sat down to discuss reasonable expectations. This transparency was very useful, not least because the regulator was able to explain to the community groups what was reasonable with reference to international best practice. Transparent action plans were then agreed."*

> *"Some discussion, such as with the competition regulator, must remain confidential. But when it is possible to get people around a table, it is better they understand our position by hearing others. Even if we say the same thing, giving the same reasons, suspicions always remain. Companies have to live with low levels of trust."*

> *"There was some resistance from a community in Ireland to some changes in operations which would result in different emissions. They feared dioxins. This was resolved in dialogue. It is every site manager's duty to be in continuous dialogue with local communities to address misunderstandings, misconceptions and so on."*

Also a priority for ⏩supply chain management and operations, and ▶ human resources.

Managing conflicts of interest
Social accountability does not make life simpler. Balancing the expectations of stakeholders, many of which will be in conflict, involves making trade-offs, taking awkward decisions, navigating complex arguments and exposure to new risk. But as delicate as corporate accountability can be, it is not as problematic as the alternative.

Treating corporate schizophrenia

Managing conflicts of interest and competing expectations between stakeholder groups is inevitably coming to prominence as the practice of stakeholder engagement matures. Leading companies recognise the need for better coordination across the business to present a consistent message to the world.

> *"Sometimes we say one thing and, unfortunately, do another. Some might see immediate advantages, but it is counterproductive in the long run."*
>
> *"I wish I could say that we don't make political contributions. When someone asks me about this I try to change the subject – it makes my job [public affairs] more difficult."*
>
> *"When a [company] employee comes across a tension, he or she thinks about our values to do the right thing. We try to always work in a way consistent with our values."*

Also a priority for: ⏩supply chain management and operations, ⏩human resources, ⏩sales, marketing and product development, and ⏩finance.

The lawyers are coming... litigation risk from higher standards of transparency

The increasingly close interest that lawyers are taking in sustainability issues, particularly on matters to do with disclosure, can stifle corporate accountability. But as a consequence, there may be a greater role for independent assurance.

> *"In the US, the involvement of lawyers has made reports far less readable and creative. They are full of lawyer speak with less discussion of dilemmas – this could be a competitive advantage for European companies."*
>
> *"There are people in the US who just look for opportunities to say 'I gotcha!' and sue companies. But that is just part of doing business here. In the end, customers and shareholders are our focus."*
>
> *"Lawyers are naturally conservative – they approach making love to their wife as an exercise in risk management. They see only the risk and not the opportunities; they need to be educated. The risk of law suits has meant that we make sure we can prove what we say and our verification protocol, using an external assurance provider, checks the veracity of case studies in our environment report for example."*

Also a priority for: ▶ sales, marketing and product development.

FIVE STEPS FOR CHANGE

As this report shows, the diffusion of social accountability responsibilities throughout companies has contributed to a disparate and fragmented agenda. But there is a common theme: **social accountability is increasingly seen in terms of broad relationship management rather than a narrow focus on process and reporting**. This recognition has important implications.

Coordination – Leaders in companies are taking the initiative to manage stakeholder relations as indeed, they always have (without resorting to such jargon). But pressure for greater social accountability means that modern managers now need to understand the perceptions and expectations of a far wider range of stakeholders than was necessary even a few years ago. Inevitably, this deeper understanding sometimes leads to formal partnerships. For those charged with mainstreaming social accountability, a first step is to secure oversight of these relationships to ensure they are aligned with the broad thrust of the social accountability strategy. The move towards an organisational response to stakeholders is an indicator of developing sophistication.

Collaboration – The drive to manage external networks needs to be matched with a effort to establish more internal cohesion. Leading companies are finding that an outward-looking perspective requires some introspection and an erosion of internal barriers. So many of the sustainability challenges facing managers are common to others in the company that new collaborations are forming. When this happens, there is often an element of chance. But progress need not rely on serendipity. A second step is to introduce opportunities (such as those identified in this report) for more structured and focused cross function working to address urgent issues and plan for the longer term.

Conflicts – Consensus and collaboration is not always possible of course. Social accountability on the ground is not a neat business. The interests of internal as well as external stakeholders are often in conflict. But it is better to deal with them from an informed position than from ignorance. Uncovering conflicts of interest is inherent in taking social accountability seriously. A third step for corporate responsibility and sustainability specialists is to prioritise stakeholders, be clear about corporate values, and then be clear about their key stakeholders – that small core of senior managers that sets strategic direction. The most challenging aspect is then to assist this core group manage the conflicting demands of stakeholders.

Competences – The diffusion of social accountability throughout companies is not just a matter of awareness-raising, winning the argument and then just doing it. Managers recognise that they need new skills and new knowledge. For those already adept at relationship management the need is not acute. Others, especially those in quite technical functions, will want to develop the necessary competences. A fourth step is to ensure the development of "soft" people skills such as team working, learning, influencing without power, political savvy, communication, emotional awareness, negotiation, cultural awareness, partnering and, critically, leadership.

Change – The environments in which companies operate are always in a state of flux. Change in social systems is rarely predictable and business does not like uncertainty. This report has deliberately avoided presenting a summary of stakeholders and issues by function to avoid the impression that such things are fixed. Instead it describes a point in time, a snapshot. Taking social accountability seriously means accepting uncertainty and adapting to fluid, dynamic complexity. A fifth step is to work towards a culture of continuous learning through a commitment to regular, broad-based and systematic stakeholder engagement.

The experience of leading sustainability companies demonstrates that existing company systems and processes can be used successfully to improve accountability to stakeholders. Managers are also working in new ways with new people inside the company, and working with new organisations. But there are no shortcuts, and no easy answers.

It is notable that the stance of these companies has changed over recent years from asserting that the environmental and social impacts of business can be managed to the satisfaction of all reasonable people, to something more nuanced. Today the mindset is more about recognising dilemmas, tensions and trade-offs, and attempting to demonstrate good intentions in dealing with them. Approaches to social accountability evolve. It is a journey for companies and individuals that embraces change, diversity and learning.

APPENDIX: LIST OF INTERVIEWEES

Supply chain management and operations

Duncan Scott, Head of Global Footwear Sourcing, adidas-Salomon

Jan van Koeveringe, Head of the Department, Pharma Technical Operations, Roche

Neil Deverill, Executive Vice President Group Procurement, Anglo American

Uwe Schulte, Vice President Supply Management, Unilever

Jean-Francois Baril, Senior Vice President, Sourcing and Procurement, Nokia

Abigail Oxley-Green, Supply Chain Corporate Responsibility Specialist, Nokia

Peter Wilson, Executive General Manager Human Resources and Operating Risk, Amcor

Marketing and product development

John Durston, Deputy CEO, Amcor Flexibles

Martin Sandelin, Senior Vice President Marketing, Nokia

Kaizer Nyatsumba, Head of Corporate Marketing, Anglo American

Chris Pomfret, Marketing and Environment Co-ordinator, Unilever

Mark Ushpol, Vice President, Marketing, Neusiedler

John Medica, Senior Vice President and General Manager Dell Product Group, Dell

Human Resources

Matthias Malessa, Head of Global Human Resources, adidas-Salomon

Christoph Thoma, Head of Planning and Controlling, Department of Corporate Human Resources, Roche

Brigitte Tantawy-Monsou, Vice President Organisation Effectiveness, Unilever

Finance

Peter Day, Executive General Manager Finance, Amcor

Mike Norris, Head of Financial Planning and Analysis, Anglo American

Dave Burritt, Corporate Controller, Caterpillar

Public and corporate affairs,

Salvatore Gabola, Director of Public Affairs Europe, Eurasia and the Middle East, The Coca-Cola Company

Jeff Seabright, Vice President Environment and Water Resources, Coca-Cola

Dave Lucas, Senior Consultant Corporate Sustainability and Environment Department, Eskom

Barry French, Director of Public Affairs, Dell

Rick Renner, 3M, Public Relations Manager

Bill Nelson, 3M, Public Relations Manager

Dr Steve Lennon, Eskom, Managing Director, Resources and Strategy