

Corporate Responsibility Briefing

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Corporate Responsibility

Corporate activity that leads to private wealth at the expense of the common good cannot be deemed socially responsible.

Global Issues

Senior UN officials have urged rich nations to pay attention to the world's 700 million living in abject poverty in the world's 50 poorest countries.

The environmental challenge is even starker in developing countries, where 5 billion of the earth's 6 billion people live.

Global Issues

In these nations, the environment is linked directly to human development and to poverty.

More than a billion people in developing countries lack access to clean water; more than 2 billion have no access to basic sanitation.

Between 5 and 6 million people, mostly children, die every year due to waterborne diseases and air pollution.

Source: The Press Trust of India, 29 June 2004.

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Global Issues

- Biodiversity (loss)
- Climate change
- Deteriorating air and water quality
- Population growth
- Widening gap between rich and poor

Context

“Gross National Product measures neither the health of our children, the quality of their education, nor the joy of their play. It measures neither our wisdom nor our learning, neither our wit nor our courage...

It measures everything in short, except that which makes life worth living...”

Robert Kennedy, 1968.

The influence of business

- The annual revenue of the five largest corporations is more than double the GDP of the poorest 100 countries in the world
- This explains the new emphasis on the responsibilities of multi-national companies

Terminology

- corporate sustainability or
- corporate responsibility and
- the broader definition of corporate citizenship
- corporate social responsibility
- triple bottom line reporting now sometimes extended to the fourth bottom line, good governance
- corporate philanthropy
- corporate social investment and last but not least
- socially responsible investment

Sustainable Development

“Meeting the needs of the present without compromising the ability of future generations to meet their own needs.”

Definition: Brundtland Commission, 1987.

Corporate Sustainability

Corporate sustainability is a business approach to create long-term shareholder value.

Sustainability leaders embrace opportunities and manage risks which derive from economic, environmental and social developments.

As the importance of these trends increases, a growing number of investors integrate economic, environmental and social criteria into their stock analysis and use sustainability as a proxy indicator for innovative and future-oriented management.

(Definition from Dow Jones Sustainability website).

State of the World 2004 - Worldwatch

- Around 1.7 billion people worldwide—more than a quarter of humanity—have entered the "consumer class," adopting the diets, transportation systems, and lifestyles that were limited to the rich nations of Europe, North America, and Japan during most of the last century.
- In China alone, 240 million people have joined the ranks of consumers—a number that will soon surpass that in the United States.

State of the World 2004

- Private consumption expenditures—the amount spent on goods and services at the household level—have increased fourfold since 1960, topping more than \$20 trillion in 2000.
- The 12 percent of the world's people living in North America and Western Europe account for 60 percent of this consumption, while.
- The one-third living in South Asia and sub-Saharan Africa account for only 3.2 percent.

Corporate Citizenship

“Corporate citizenship can be defined as the contribution a company makes to society through its core business activities, its social investment and philanthropy programmes, and its engagement in public policy. The manner in which a company manages its economic, social and environmental relationships, as well as those with different stakeholders, in particular shareholders, employees, customers, business partners, governments and communities determines its impact.”

From the World Economics' Forum - Global Corporate
Citizenship Initiative (www.weforum.org).
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Triple Bottom Line

“The triple bottom line (TBL) focuses corporations not just on economic value they add, but also on the environmental and social value they add – and destroy. At its narrowest, the term ‘triple bottom line’ is used as a framework for measuring and reporting corporate performance against economic, social and environmental parameters.”

John Elkington, 1980ties.

Corporate Social Responsibility

- There are many different definitions of CSR and all have much in common.
- Generally CSR in the USA is closely aligned with corporate philanthropy, and still is, in many cases reflected by financially well endowed foundations (e.g.. Bill Gates foundation).
- In the Europe a more integrated approach to CSR is being promoted closely aligned to sustainability and beyond philanthropy.

Continued....

The World Business Council for Sustainable Development in its publication *"Making Good Business Sense"* by Lord Holme and Richard Watts, used the following definition:

"Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"

continued....

Definitions as different as "**CSR is about capacity building for sustainable livelihoods. It respects cultural differences and finds the business opportunities in building the skills of employees, the community and the government**" from Ghana, through to "**CSR is about business giving back to society**" from the Phillipines are quoted in the report.

Cultural Challenges

There are, however, important cultural differences of great concern to multinational corporations. Relationship between business and society is affected by the many local, national issues.

“The challenge is to derive a framework that serves the interests of divergent societies and the public good, as well as fitting the many corporate models, and that does not impede responsible market activity.”

Malcolm McIntosh, Visions of Ethical Business.

One size fits all?

- There is general agreement in discussions around corporate social responsibility that 'one size cannot fit all'.
- However, this does not result in: 'do as you please.'

Demystifying the Concept of CSR

Making a difference by

- Improving social and environmental performance
- Through
 - ✓ Effective partnerships
 - ✓ Transparency
 - ✓ Realising win/win opportunities
 - ✓ Integrated long-term decision making

Corporate Social Investment

- The investment a company makes above the business development, legislated employee development and marketing budget for social (including environmental) purposes.
- Social investment implies the expectation of a return, at a minimum a social return, at a maximum, social and financial returns.

CSI...

- CSI goes further than strategic philanthropy in that it is closely tied to a corporation's competitiveness and ability to generate profits and seeks to enhance a company's ability to do so.
- Porter and Kramer, two Harvard Professors, argue that the only way a corporation can really add value to the social sector and justify distribution of pre-tax dollars to social ventures, is when these activities are business case aligned.

Key Issues

- Should Business be involved with social issues or whose responsibility is it anyway?
- Should CSR be **legislated** or remain **voluntary**?
- Should CSR be separate from business ie corporate foundation “giving back to the community” or integrated into business strategy to enhance competitiveness?

CSI can:

- Impact business outcomes positively.
- Affect a company's ability to attract top talent.
- Positively influence customers and employees.
- Strengthen the local context business operates within.
- Companies can achieve better results than individual donors due to resources available to support partners.

Barriers

- Confusion about CSR, CSI and all the rest and the implementation.
- Lack of professional development and expertise
- CSI is marginalised from the mainstream business decision making process and often too closely aligned with reputation management instead of integrated into main business strategy.
- Too much preaching to the converted.
- Financial Analysts.
- Multi -Stakeholder engagement strategies lacking substance.

Socially Responsible Investments

“The investment goal is to achieve full financial, market-rate returns with environmental and/or social value components. Most of the activity in this silo make use of social and other screens to guide investments in mainstream corporations or to make use of shareholder activism to pursue social and environmental objectives.”

Key definitions: Blended Value Map.

International Frameworks

- Global Compact
- Global Reporting Initiative (GRI) - (www.globalreporting.org/)
- Sullivan Principles
- Equator Principles

Global Compact

The idea was born
at the World
Economic Forum in
Davos on 31
January 1999

Launched by UN Secretary General Kofi Annan in 1999, it is divided into four main areas:

human rights;

labour standards;

Environment; and

anti-corruption.

Global Compact

Its ten principles ask business to:

1. Support the protection of international human rights abuses.
2. Make sure their own corporations are not complicit in human rights abuses.

Global Compact

3. Uphold freedom of association and recognise the right to collective bargaining.
4. Uphold the elimination of forced labour.
5. Uphold the effective abolition of child labour.
6. Uphold the elimination of discrimination in respect of employment and occupation.

Global Compact

7. Support a precautionary approach to environmental challenges.
8. Encourage the development and diffusion of environmentally friendly technologies.
9. Undertake initiatives to promote greater environmental responsibility.
10. Businesses should work against all forms of corruption, including extortion and bribery.

Global Compact

The adherence to these principles are voluntary. The next steps for companies that have adopted the Global Compact are:

- To comprehensively map their 'spheres of influence' as envisaged by Principle 1 of the Global Compact.
- To further extend the promotion of human rights, labour standards and environmental protection upstream and downstream.
- To encourage suppliers to extend the endorsement of the Global Compact principles with *their* suppliers.

Global Compact

- By June 2004 some 1,200 companies had become signatories of the UN Global Compact.
- This figure can be seen as both a sign of failure and success.
 - Failure, because there are millions of companies globally – but then how would the Global Compact office manage so many participants?
 - Success, in that the figure includes global corporations alongside much smaller players.
 - Indeed some sixty percent of the signatories come from non-OECD countries.

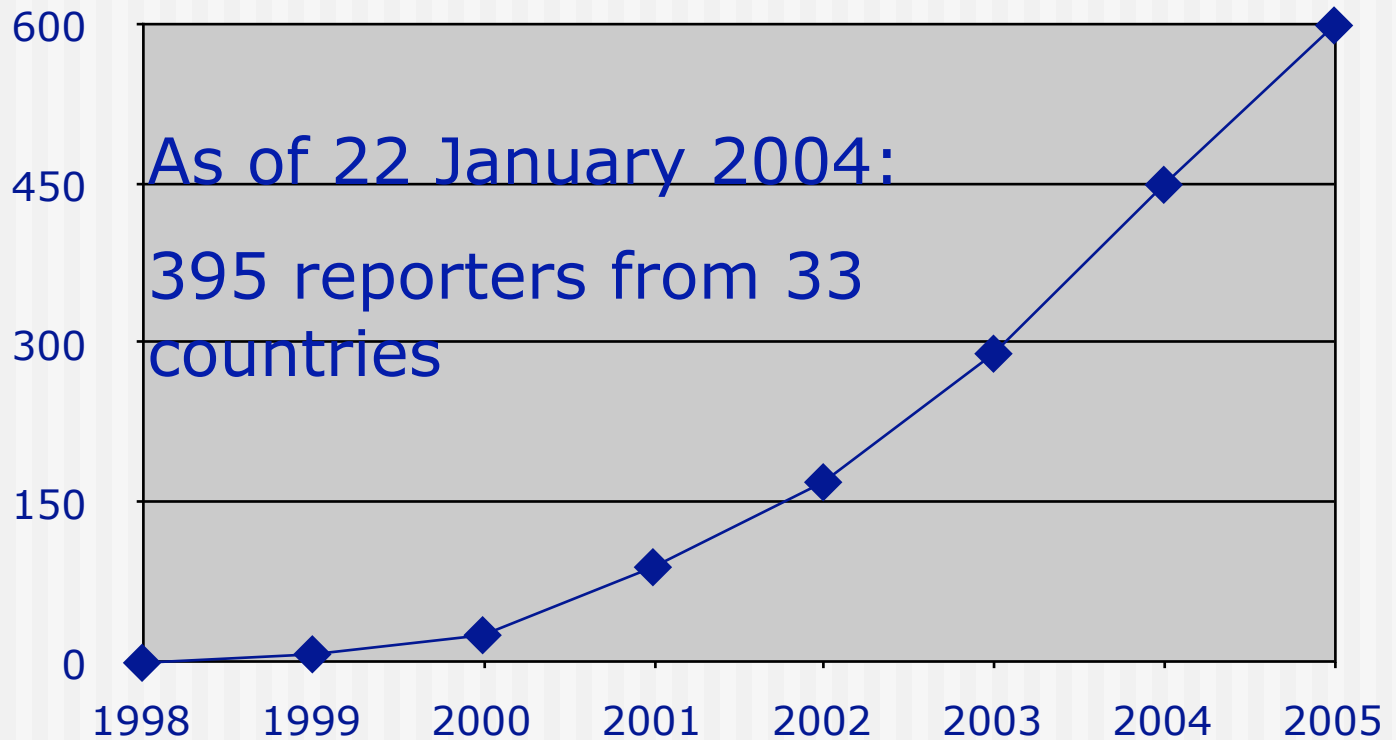
GRI

- Established in 1997 by the Coalition for Environmentally Responsible Economies in partnership with United Nations Environment Programme.
- Created the Sustainability Reporting Guidelines through worldwide stakeholder network.

GRI

- GRI is not a code of conduct or a performance standard.
- The guidelines together with technical protocols and industry sector supplements are a reporting framework, an instrument for measuring and reporting an organisation's contributions to sustainable development.

Increase GRI Reporting



Supply Chain Management

Example: The Equator Principles

Project financing plays an important role in environmental and social issues. The principles have been developed to aid financial institutions in deciding which projects to finance.

The Equator Principles were first adopted by 10 banks on 4 June 2003

This has grown to 25 financial institutions located in 14 countries.

EP

the 23 banks among the 25 financial institutions which have adopted the Equator Principles arranged \$55.1 billion of project loans in 2003, representing 75% of \$73.5 billion project loan market volume in 2003.

Source: London-based Dealogic, EP website

The Way Forward

- Leadership from the top
- Rigorous approach – CSI strategy based on solid business case
- Evolve and update language
- Define the Australian way, not just copy US or European model
- Apply business sense to CSI
- Focus on all sizes of business, not just large multinationals
- Increase professionalism!

Stakeholder Dialogue

Aims and objectives:

- **To** address concerns and be in tune with society
- **To** involve stakeholders, gain their commitment and diminish potential risks
- **To** link production with consumption and gain support for radical sustainable solutions
- **To** check and improve social policy through stakeholder review and consultation
- **To** provide transparency and gain credibility, understanding, respect and support

Stakeholder Dialogue

“The quality of our relationships with our stakeholders is critical to our business success... our reputation directly affects customer satisfaction. Stakeholder management is therefore a hard-nose business strategy”.

Quote: Frank Cicutto, National Australia Bank.

Stakeholder Dialogue

The GRI is primarily concerned with whether a company is concerned with systematic disclosure of non-financial information that meets stakeholders expectations.

Stakeholder dialogue provides a platform to negotiate the balance between all stakeholders interests.

Stakeholder Dialogue

The instrument to test, implement and improve social policy and to continuously improve sustainability performance.

World Economic Forum

The World Economic Forum is an independent international organization committed to improving the state of the world. The Forum provides a collaborative framework for the world's leaders to address global issues, engaging particularly its corporate members in global citizenship.

The World Economic Forum was founded in 1971 by Klaus Schwab as a not-for-profit foundation building it into the foremost global partnership of business, political, intellectual and other leaders of society committed to improving the state of the world.

Brundtland Commission

- Brundtland was Norway's 1st women Prime Minister.
- She led the World Commission on Environment and Development in 1987 which developed the definition on sustainable development.

Dow Jones Sustainability Indexes

Launched in 1999, the Dow Jones Sustainability Indexes are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide.

Based on the cooperation of Dow Jones Indexes, STOXX Limited and SAM they provide asset managers with reliable and objective benchmarks to manage sustainability portfolios.

DJ sustainability indexes

Currently 51 DJSI licenses are held by asset managers in 14 countries to manage a variety of financial products including active and passive funds, certificates and segregated accounts. In total, these licensees presently manage 2.8 billion EUR based on the DJSI.

DJSI

- A defined set of criteria and weightings is used to assess the opportunities and risks deriving from economic, environmental and social developments for the eligible companies.
- The external verification by PricewaterhouseCoopers ensures that the corporate sustainability assessments are completed in accordance with the defined rules.

Social Return on Investment (SROI):

“Broadly speaking, social returns are those non-financial returns generated by a venture or created by an investment of capital.

Many people make use of the term with an operating assumption that social returns generated by organizations are often beyond measurement and assessment.

In recent years this assumption has been challenged as the term SROI has been used by REDF and others as a defined framework to assess the economic impact and blended value generated by social purpose enterprises.

SROI...

This is calculated based upon assessing the social cost savings and social impact generated by such ventures. The term has come to be more generally used as any quantitative measure of social impact and capital performance."

Blended Value Map p.34. See REDF website for detailed definition of SROI (www.redf.org/about_approach.htm).

Context

Never before in the 33 years of the World Economic Forum's history has the situation in the world been so fragile, as complex and as dangerous as this year. We feel that we are living in a new world--with new rules and new dangers--but certainly also with new opportunities. . . . Today we need a new, an enlarged concept of business leadership!

KLAUS SCHWAB, PRESIDENT,
Ulrike Schuermann July 2004