Issue 4 • March - April 2002

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Ethical Corporation magazine

● Best Practice in Corporate Responsibility ●

Auditing the auditors

The current state of corporate reporting

Corporate responsibility and legislation

Measuring and managing corporate responsibility

Practical tips on developing auditor selection criteria

Impact of good practice on corporate reputation

Janus

Our new columnist lets off some steam

The need to tackle corruption

Ethical Corporation magazine

Ethical Corporation magazine is published monthly by
FC Group
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Editor's notes

While CSR has its critics, the term "CSR" itself has many of its own. We at Ethical Corporation magazine are among them. For while it is useful that all those working within the field of corporate ethical performance have a term to rally around, two aspects of this particular term have the potential to harm the cause.

Firstly, even taking into account the fact that it takes time for an acronym to gain weight, "CSR" just sounds too throwaway and too lazy to help shore up confidence in the credibility and commitment of corporate adherents to it. "CSR" sounds like something that corporations simply do, rather than something they believe in and act on out of a sense of duty.

Secondly, "CSR" is confusing, not only to those that do not yet know what these three letters stand for, but also to those who do and yet see it used in contexts in which corporate environmental or financial performance is the issue.

At Ethical Corporation magazine we prefer the simple "corporate responsibility". Why? Because it's not at all confusing, does not exclude environmental and financial aspects of corporate performance and does not represent too great a departure from the current, unsatisfactory "CSR". If we really are entering the era of the triple bottom line and of holistic approaches to managing and assessing corporate performance, then now is the time to throw out this one-dimensional term.

Toby Webb
Editor

Agree? Disagree? Email editor@ethicalcorp with your comments or vote on the website

NB. This issue of Ethical Corporation magazine is a joint March - April edition which co-incides with our conference on April 24-25 in London on managing corporate responsibility. We hope to meet you there and discuss the 'how' rather than the 'why' of corporate responsibility.

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Measuring and managing corporate responsibility

Chris Laszlo looks at the management issues raised by responsible corporate policy integration

Executives today have good reason to feel overwhelmed by the number and variety of approaches to Corporate Responsibility and its sister concept Sustainability. Global standards such as the Caux Principles for Business (1994), SA8000 (1998), the UN Global Compact (1999) and the Global Reporting Initiative (2000 revised) each have their own spin on accountability, business conduct, corporate governance, community involvement, human rights and environmental responsibility.

Scientific approaches to Sustainability such as The Natural Step have contributed to a better understanding of the inherent physical limits of the earth. Increased government regulations have tightened permissible levels of air, water and land pollution. The growth of Socially-Responsible Investing (SRI) to over two trillion dollars in 2001 has helped to define so-called "sin sectors" such as alcohol, tobacco, nuclear and genetic engineering. Voluntary approaches to corporate responsibility have produced many different types of social and environmental initiatives.

It's not surprising then that corporate responsibility and Sustainability are often seen as adding complexity and costs to an economic environment that can ill-afford them.

Now a new set of corporate responsibility measures are emerging. These measures are market-driven and they are converging on a commonly agreed definition of what it means for a company to be responsible. Called Sustainability Benchmarks, these measures are being developed in the capital markets. In over a dozen countries around the world, a new breed of SRI rating agency is abandoning the practice of screening out "sin" stocks in favour of assessing companies using best practice benchmarks by sector. These rating agencies use the benchmarks to give companies a "sustainability score", which is then sold to fund managers looking for additional information to determine stock performance. The (as yet) undiscovered potential of these benchmarks lie in their application as a management tool to better measure and manage corporate responsibility.

> "A new set of corporate responsibility measures are emerging. These measures are market-driven and they are converging on a commonly agreed definition of what it means for a company to be responsible"

Sustainability benchmarks as a management tool

Sustainability benchmarks are metrics whose legitimacy comes from stakeholders. In most cases these stakeholders are shareholders, employees, customers, business partners, communities and the natural environment. The metrics typically involve hundreds of performance indicators organised by stakeholder group and evaluated in three ways. These are policy (intention), execution (process and structure), and results (outcome). The underlying principle is to ascertain whether the company is operating to the detriment of its stakeholders or involving future generations.

Further legitimacy of the measures come from their development in consultation with international NGOs such as UNEP and asset managers like the Swiss group, Sustainability Asset Management (SAM) and the search for universal principles derived from global standards such as the Caux Principles and the Global Reporting Initiative.

The questions these new metrics are now asking are as follows:

- Is the company's social and environmental performance sustainable in policy and execution, and is it better (or worse) than that of its peers in terms of results?
- In the eyes of each stakeholder group, does the company "walk the talk" as a corporate citizen of a

more prosperous, sustainable and equitable world?

For example, a company engaged in electroplating is likely to be assessed at a low level of sustainability performance simply because it is in a dirty industry. At the policy and execution levels, electroplating is environmentally damaging using current technology. However, at the results level, an electroplater with an industry-low number of environmental damages and fines will be rated comparatively well in relation to competitors with a large number of incidents.

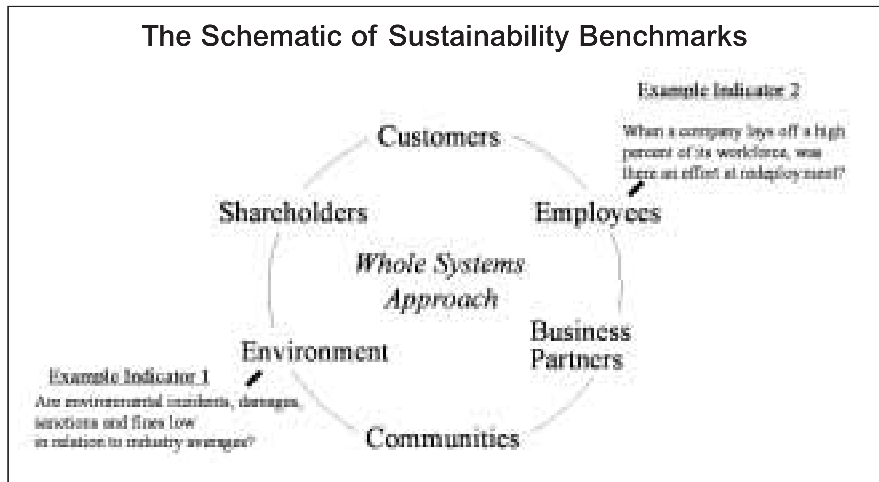
> “What is exciting for business, of course, is that these metrics finally offer the possibility of measuring and managing corporate responsibility and Sustainability like any other business process. Executives recognize that ‘what gets measured gets managed’”

These questions, in turn, raise classic management issues:

- What strategic architecture is called for by the benchmarks?
- What organisational culture and mindsets are needed?
- What is the link between benchmark performance and financial results?

The Sustainability Benchmarks are only valuable as a management tool to the extent that they help create a strategic inflection point in the organisation. Managers have to understand the underlying worldview, operating targets and externalities (social and environmental) before they can effectively apply the measures of sustainability. In other words, business purpose needs to be grounded both in the pursuit of increasing shareholder value and in taking responsibility for the company’s social and environmental actions.

What is exciting for business, of course, is that these metrics finally offer the possibility of measuring and managing corporate responsibility and Sustainability like any other business process. Executives recognise that “what gets measured gets managed”. In this context, it is useful to remember that another critical business process, Customer Relationship Management, was once in a similar lifecycle stage to corporate responsibility and Sustainability. Before Kaplan and Norton’s 1992 Harvard Business Review article on the Balanced Scorecard, customer management was often managed on an ad hoc basis, without linking goals and objectives to operating processes and financial results. Today, ten years later, customer relationship management is quantified and tracked almost to the same extent as financial management, using sophisticated software platforms that fully integrate the process at every level of the business.



A whole systems approach

Many of the SRI rating agencies use hundreds of indicators. In one example there are over 1,200 indicators used! These indicators can be usefully grouped together under 20 to 30 benchmarks expressed in terms more amenable to strategic thinking.

Any single indicator taken by itself is almost meaningless for assessing responsible practice. The whole idea behind responsible practice is that it requires a systems approach, and that you cannot be sustainable in one part of the system and unsustainable in another. For example, companies that take great care of customers and employees but continue to dump toxic wastes into the environment are missing the point of corporate responsibility.

With this caveat stated, we show in Figure 1 the schematic of the Sustainability Benchmarks and examine two indicators from the employees and the environment.

An example of environmental incidents, damages, sanctions and fines related to industry averages is illustrative of the market approach taken. Rather than measuring absolute levels of emissions or waste in scientific terms (for example, NOx emissions), the question is phrased in performance terms relative to peers and assessed in terms of dollar amounts. When used as a management tool, this indicator requires a certain amount of inquiry and exploration: What

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Auditing, conflict of interest and credibility

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3. Bonus questions

For the company that wants to go the extra distance, the following steps will provide extra assurance.

a. Does the auditor have a proven track record of professionalism whenever its integrity has been questioned?

b. Does your harshest critic recommend the system and the auditor?

No situation is ever perfect, but if you know where the deficiencies are, you can put in place extra provisions that can improve the credibility of the audit. Even with audits it is possible to specify your needs, as long as the minimum demanded by the standard is achieved. You can ask, for example, that the audit be done to a more rigorous standard and that the auditor attest to this in a public statement. If this is not possible then an up front, clear statement by the company of the shortcomings may go a long way toward protecting its reputation. ■

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The role of corporate responsibility in managing reputation

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affair, with no clear ownership and responses hurriedly cobbled together, always delayed by protests from the legal team, as a reputation risk is about to knock the corporate lights out.

Times are changing. Tighter corporate governance requirements, such as Turnbull in the UK and KonTraG in Germany, are two examples of the mounting pressure from shareholders and regulators to improve the visibility of good risk management in a manner that complements the creation of shareholder value. We are entering the era of the "triple bottom line" when companies are being increasingly required to achieve a balance between commercial success, environmental responsibility and social justice.

All of this means that the stakes are becoming higher for companies in their dealings with the outside world. Accountability and responsibility are the watchwords of modern business, and external perceptions of the way companies are seen to behave now have material consequences. Corporate responsibility programmes are an integral part of good reputation management. ■

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Measuring and managing corporate responsibility

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fines were paid this year? Last year? The year before last? How did this compare with our major competitors? What were the details of the incidents? Who was impacted and what was the nature of the impact? Finally, this indicator has to be considered together with other pertinent indicators in the environment to ensure that the stakeholder group will get a clear picture of overall environmental performance.

The second example illustrates the stakeholder-centric nature of the benchmarks. Employees are legitimately concerned by management's good-faith efforts to retrain, counsel and outplace people during massive layoffs. A related indicator of responsibility toward employees: the company promotes sustainable patterns of employment by giving employees skills that have long-term market value.

Each benchmark is applied differently depending on the company and industry. In the fast food business, sustainable patterns of employment will look very different from those in the financial services sector. However, in all cases appropriate measures need to be developed to ensure that the company is conducting itself responsibly according to each benchmark being considered.

When taken together as a system of stakeholder groups within which exist benchmarks that are in turn defined by fine-level indicators, a cohesive definition of corporate responsibility and Sustainability emerges.

As stated earlier, these metrics are not moralistic in the traditional sense of "sin" products or services such as alcohol, weapons or gambling. Nor do they involve philanthropy and other charitable activities that are seen as parallel to the business or as simply another cost centre. Instead the emphasis is on how a company conducts itself in the course of its normal business operations.

Corporate responsibility and Sustainability programmes are often implemented by executives who feel morally compelled to do their part to reverse trends such as global warming, food safety, nuclear risks, population growth, diseases of civilisation, soil erosion, water scarcity and deforestation. While higher ethical awareness of global problems is essential, it is time to manage the new responsibilities as one would any other key performance issue. The advent of Sustainability Benchmarks from the capital markets opens new and promising avenues for business leaders committed to corporate responsibility and Sustainability consistent with strong business performance. ■

Chris Laszlo is co-author of *Large-Scale Organizational Change: An Executive's Guide* (2000). He can be contacted at COBsecretariat@aol.com