

The Role of Business in Society: Delivering Sustainable Development

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The Role of Business in Society: Delivering Sustainable Development

- Sustainability Development: the challenge
- Corporate Responsibility: finding the right balance
- A framework for response: strategy, management and reporting

Sustainable Development: Some executive perspectives

“Corporate social responsibility is a **hard edged business decision**. Not because it is a nice thing to do or because people are forcing us to do it....because it is good for our business”

Unilever, Former CEO

“We believe a company that behaves ethically, responsibly and sustainably will ultimately be **more successful than its competitors** because it addresses issues on which its long-term success depends”

Stephen Green, Chairman, HSBC

“People are going to want, and be able, to find out about the **citizenship of a brand**, whether it is doing the right things socially, economically and environmentally”

Proctor & Gamble Europe, President of Business Development

“Four strategic guidelines
describe our path to the future, with which we align our activities:
Earn a premium on our cost of capital
Help our customers be more successful
Form the best team in industry
Ensure sustainable development

The combination of these four guidelines makes us successful”

BASF, CEO

“The brands that will be big in the future are those that **tap into the social changes** that are taking place”

Centrica plc, Chairman

Sustainable Development: the challenge

“20% of the world’s population consumes 80% of its resources. If everyone consumed at this level it would take two extra planets to provide the necessary resources. Global marketing of this consumer lifestyle guarantee disaster”

Jonathon Porritt, 2006 PwC Partner Conference

“By 2050, 85% of the world’s population of some nine billion people will be in developing countries. If these people are not by then engaged in the marketplace, our companies cannot prosper and the benefits of a global market will not exist”

WBCSD 2005

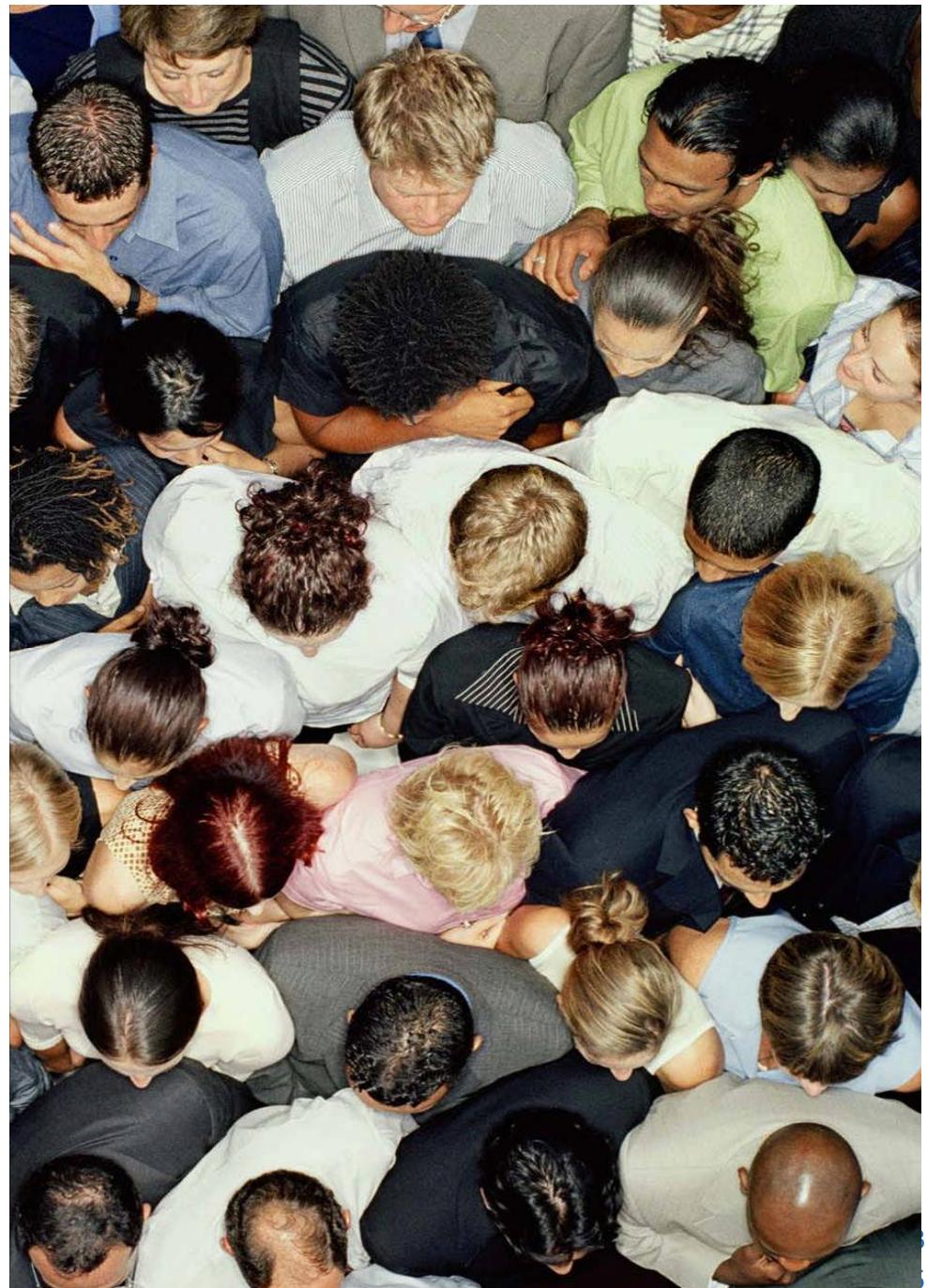
Corporate Governance and Corporate Social Responsibility

Sustainable Development: the challenge

Global population increase

Global population reached 6 billion in 1999. It's expected to reach 7 billion in 2012 and exceed 9 billion by 2050.

Global population in 1950 was 2.5 billion.



Sustainable Development: the challenge



Net forest loss between 2000
-2005 was over
7 million hectares per year



Biodiversity

Corporate Governance and Corporate Social Responsibility

Sustainable Development: the challenge

“Human activities have taken the planet to the edge of a massive wave of species extinctions, further threatening our own well-being. The loss of services derived from ecosystems is a significant barrier to the achievement of the Millennium Development Goals to reduce poverty, hunger, and disease.”

*(Millennium Ecosystem Assessment,
2005)*

Sustainable Development: the challenge



Sustainable Development: the challenge

Resource constraints

Plants are used as sources of commercial drugs and traditional medicines. As an approximate estimate, 25% of medicines in the developed world and 75% in the developing world originate from plants.



Sustainable Development: the challenge



Sustainable Development: the challenge

Investor pressure

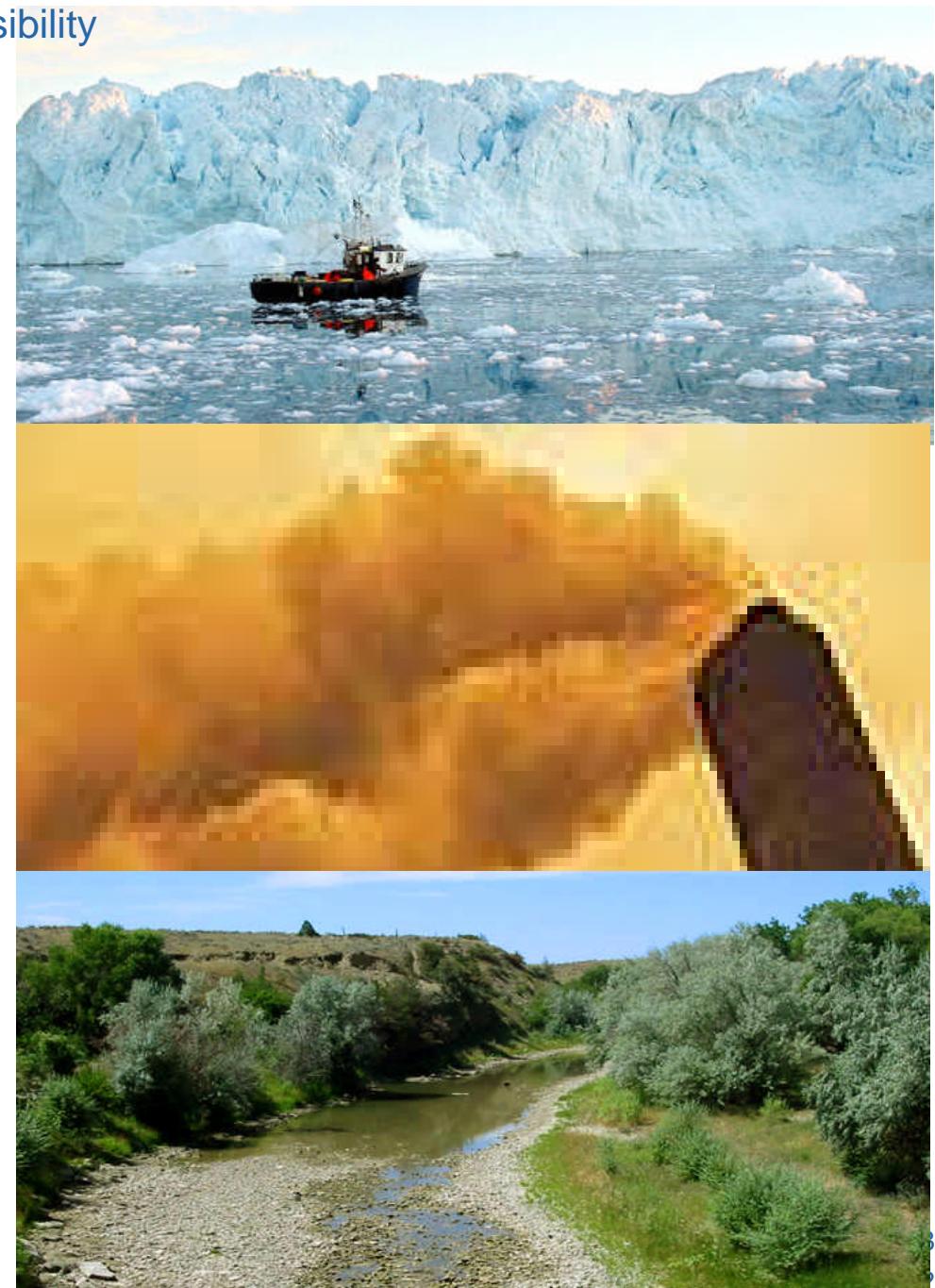
“These companies are excluded because, in view of their practices, investing in them entails an unacceptable risk that the fund may be complicit in serious, systematic or gross violations of norms”.

Statement in June 2006 as the world's largest pension fund sold its holdings in Wal-Mart and US mining group Freeport-McMoRan Copper & Gold



Sustainable Development: the challenge

Climate change...
“is probably the greatest
short term challenge
facing the human race”



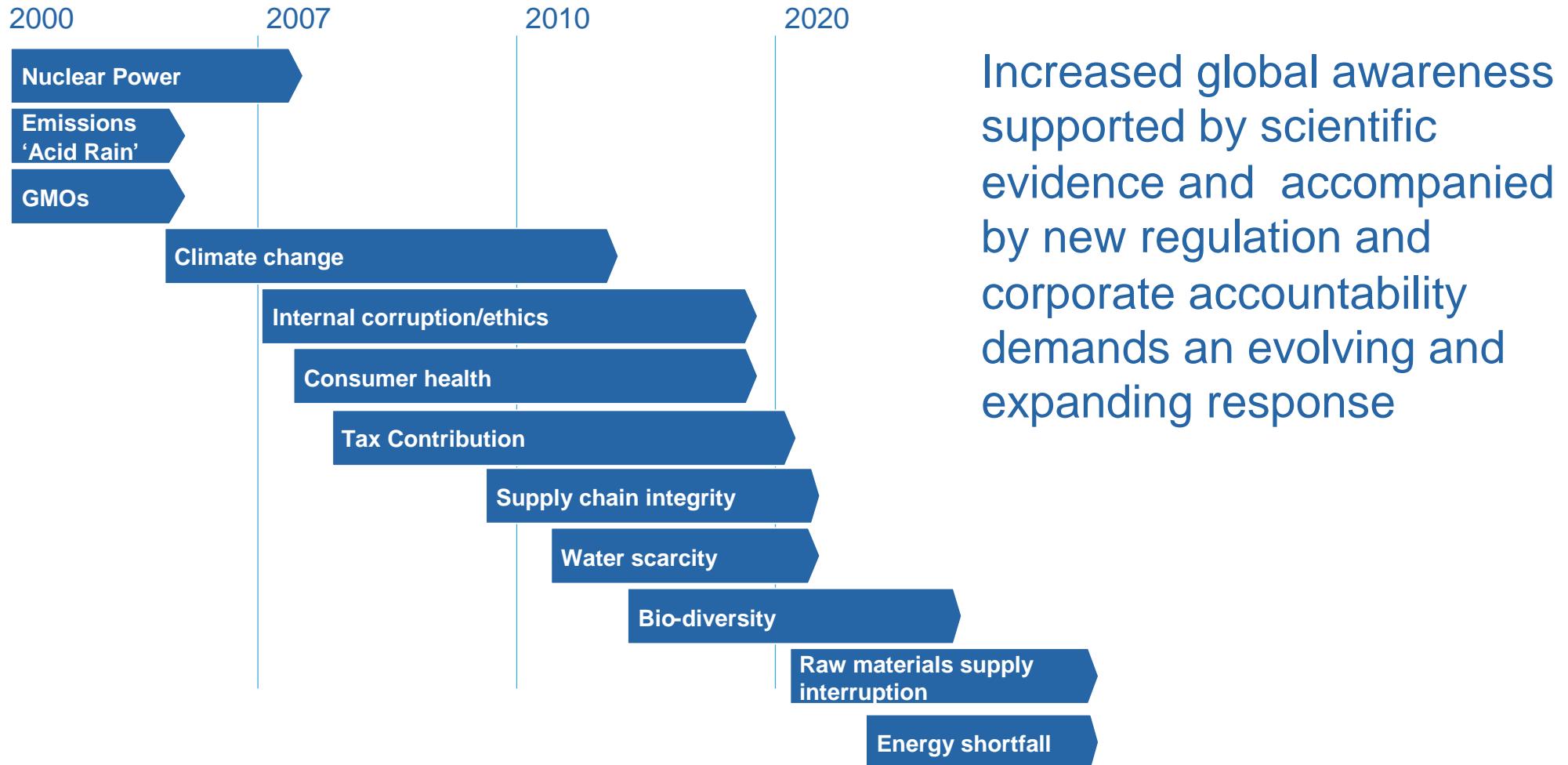
Sustainable Development: the challenge



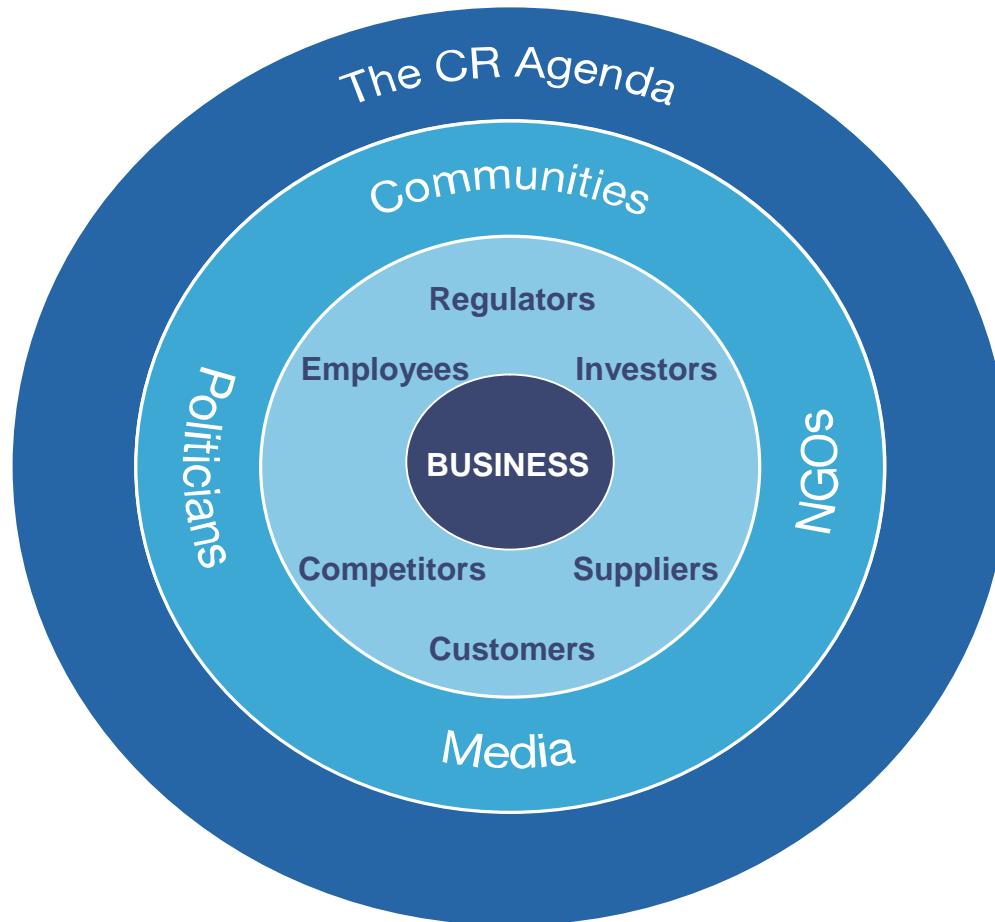
IPCC Fourth Assessment:

- 11 out of the last 12 years warmest on record
- Average annual sea level rise since 1993 = 3.1mm (previously 1.8mm from 1961)
- Global temperature increases from 0.6c to 6.4c by 2100
- 30% of species at risk after 2c increase
- 75-200m people in Africa face water shortage by 2020

Sustainable Development: the challenge...new issues, new risks



Corporate Responsibility: finding the right balance



- Corporate responsibility has often been interpreted as corporate philanthropy which has distracted focus from its core importance to business
- But corporate responsibility performance is now under more scrutiny and recognised as critical to long term success

Corporate Responsibility: finding the right balance

Communities

- Global activism
- Coordinated campaigns

Customers

- Concerned consumer index
- Product and brand boycotts



Regulators

- End of life obligations
- Carbon reporting
- Product stewardship
- Fairness to customers

Investors

- Enhanced Analytics Initiative
- "Marathon Club"
- Pension fund withdrawal decisions
- Private equity response and focus

Sustainable Business: business impacts on development

Business activities

Assets

- Infrastructure
- Products & Services

People

- Jobs
- Skills & Training

Financial Flows

- Procurement
- Wages & Taxes

Procedures & Compliance

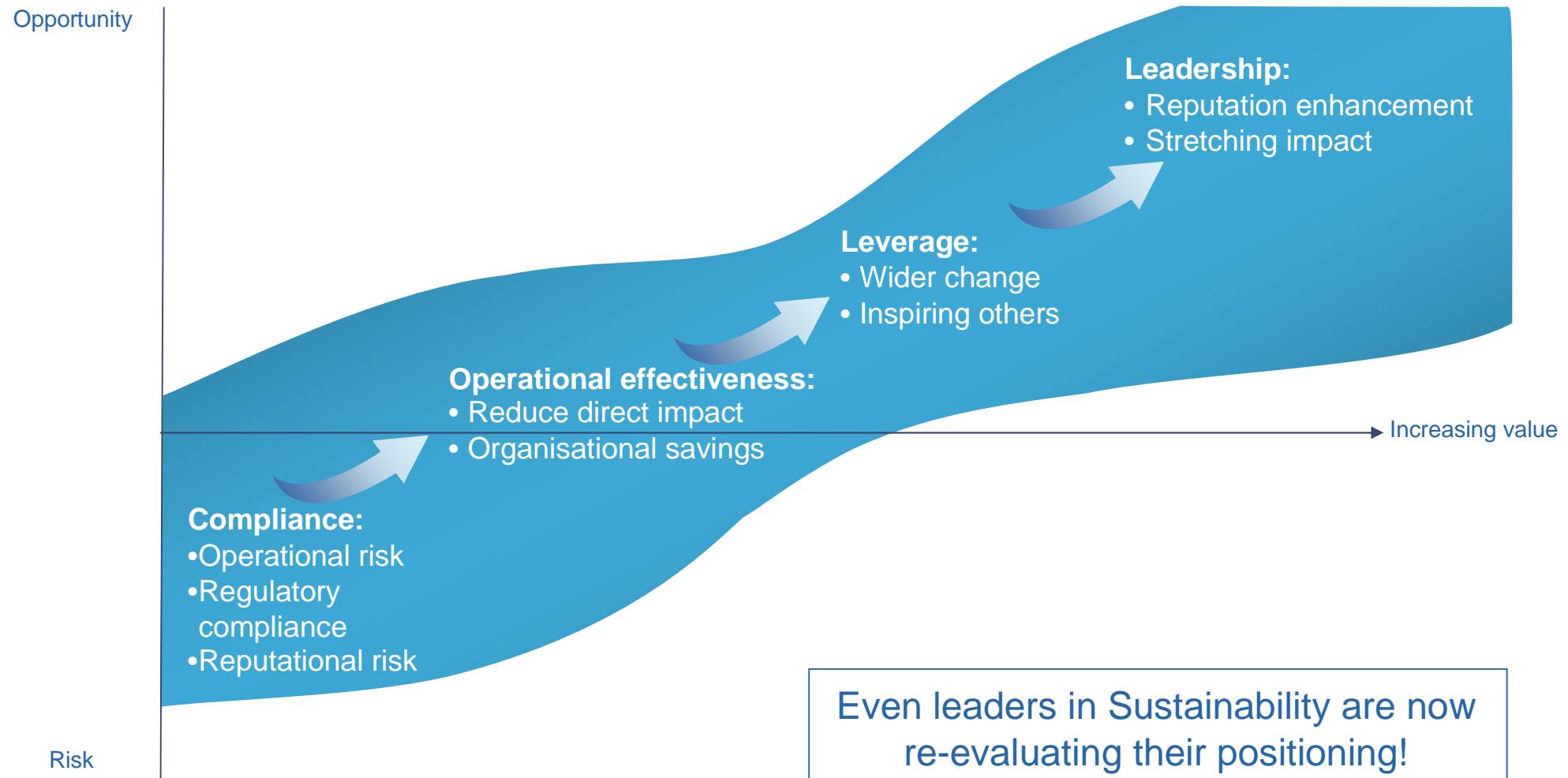
- Corporate Governance
- Environmental Management

Development 'Buckets'

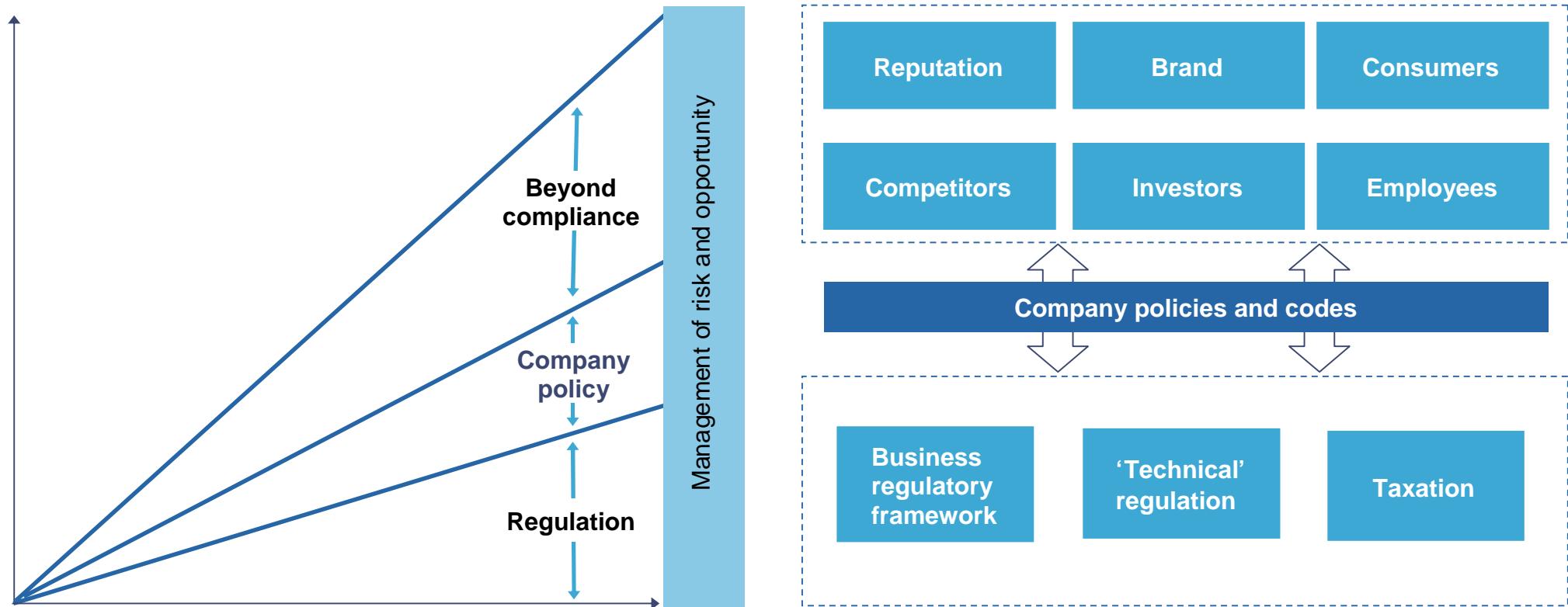
- Economic Growth / GDP
- Education & Capacity Building
- Poverty Alleviation & Enterprise Development
- Social Stability
- Public Health
- Human Rights
- Governance
- Environmental Sustainability

Source: World Business Council for Sustainable Development (2007)

Corporate Responsibility: a framework for response



Corporate Responsibility: a framework for response



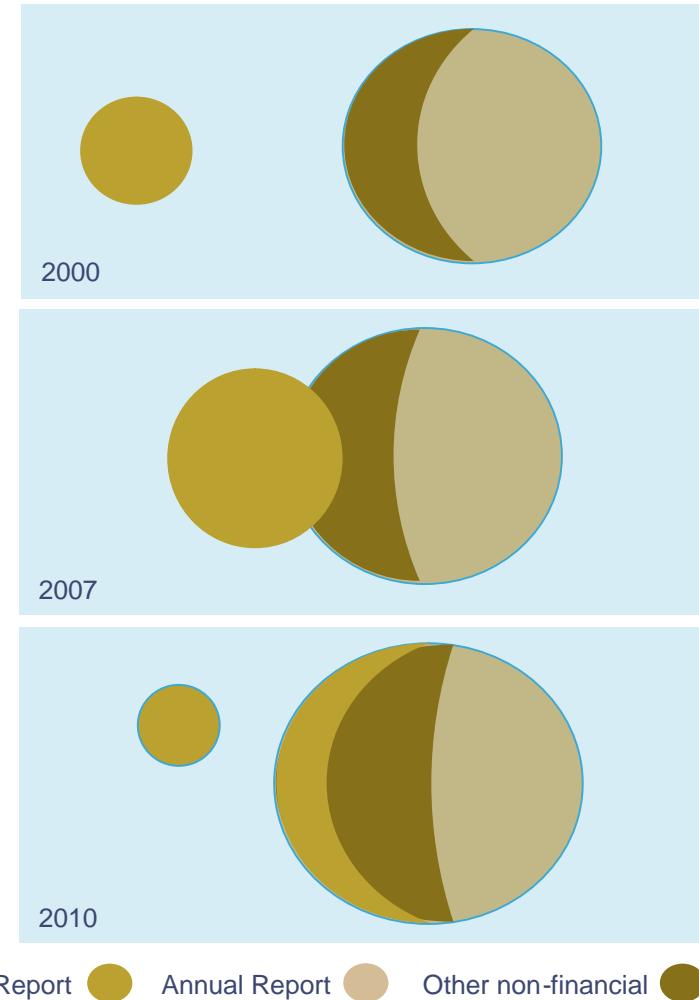
There is little argument that CR is now mainstreaming; a source of competitive advantage underpinned by a growing body of regulation

Corporate Responsibility: reporting and assurance trends

The **scope of reporting has broadened**, with companies increasingly extending scope from environment and health/safety to include social and economic impact.

There is now a trend to produce much more **focused non-financial and SD reporting**, increasingly as a stand-alone section within the Annual Report. Companies are increasingly seeking assurance in relation to material information within the report.

In the future, we think companies will better **integrate** non-financial and SD reporting and assurance within the Annual Report. This will be supported by targeted stakeholder communications focused on specific issues to address wider needs.



Corporate Responsibility: a practical reporting framework



Corporate strategies need review and better support in practice

- Improved analysis of the strategic relevance and implication of CR
- Defined success measures and KPIs
- Improved connections between vision statements and strategy
- Analysis for conflicts between different strategic objectives

Questions for the Board to ask?

- How are CR issues integrated into the strategy and strategic conflicts avoided?
- How are KPIs selected and what analysis is performed?
- What does success look and feel like – how is it measured?
- What are your competitors doing?

Governance and accountability arrangements need to improve

- Governance at Executive rather than operational level
- Improved segregation of duties
- Removal of internal disconnects and silos (e.g. “compliance monitoring”)
- Closer connection between CR performance and remuneration
- Planned and structured stakeholder engagement and communications

Questions for the Board to ask?

- What Executive and Board accountability structures are in place?
- How are stakeholder needs understood and responded to?

Risk management processes have to evolve

- Executive determination of risk appetite
- Expanded scope of core risk processes and models
- Analyse cumulative and/or interdependent risks
- Objective, evidence-based, consistent risk analysis processes
- Methods for determining appropriate risk mitigation steps

Questions for the Board to ask?

- To what extent do risk processes incorporate robust analysis of CR issues?
- What basis is used for determining materiality?

Internal and external reporting and assurance can be optimised

- Appropriate information systems and disclosure controls
- Accountability structures
- Connected assurance processes
- Stakeholder communication strategy and plans

Questions for the Board to ask?

- What assurance mechanisms ensure effective controls and reliable disclosures?
- How is the effectiveness of communication assessed?

Top ten warning signs of underdeveloped or ineffective governance of Corporate Responsibility risk (or opportunity)

1. Vision statements are not supported by the strategy
2. KPIs are not aligned to the content of the strategy nor the primary business risks
3. Delegation of accountability to operational levels and/or non executive functions
4. Isolated CR programme with strong PR/Communications influence
5. No remuneration connections, or inappropriate connection, at Executive level
6. No Audit Committee or Disclosure Committee challenge processes
7. Cursory or selective reporting on CR risks and performance to the Board
8. Scope of external CR reporting exceeds internal reporting
9. Misleading or meaningless assurance in public reports
10. Inconsistencies between Executive feedback and that of other stakeholders

What should the Board be seeing and asking

Interpretation and analysis of CR issues informing strategy and plans

Executive control strategy and framework to address key risks/opportunities

Key questions

- What does success look and feel like – how is this measured?
- How are CR issues integrated into strategy and strategic conflicts avoided?
- What Executive and Board accountability structures are in place?
- To what extent do risk processes incorporate robust analysis of CR issues?
- How are KPIs selected and what KPI analysis is performed?
- What assurance mechanisms ensure effective controls and reliable disclosures?
- How are stakeholder needs understood and responded to?
- What basis is used for determining materiality?
- How is the effectiveness of communication assessed?
- What are your competitors doing?

Thank you for your attention

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