The Role of Business in Society: Delivering Sustainable Development

Gopinath Menon
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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

“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

“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

“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.
Net forest loss between 2000-2005 was over 7 million hectares per year.
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)
Around 75% of municipal waste is landfilled in the UK. In Greece this figure is around 90%. In Sweden it is 15%.
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.
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Sustainable Development: the challenge

**Regulation**

- End-of-life Vehicles legislation
- Waste electrical and electronic equipment (WEEE) directive
- Packaging regulations (2006) SI 1492
- Registration, evaluation and authorisation of chemicals (Reach)
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
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
Increased global awareness supported by scientific evidence and accompanied by new regulation and corporate accountability demands an evolving and expanding response.
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

The Role of Business in Society
PT PricewaterhouseCoopers FAS
## Sustainable Business: business impacts on development

### Business activities

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<tr>
<th>Assets</th>
<th>Development ‘Buckets’</th>
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<tbody>
<tr>
<td>• Infrastructure</td>
<td>• Economic Growth / GDP</td>
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<td>• Products &amp; Services</td>
<td>• Education &amp; Capacity Building</td>
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<td>• Wages &amp; Taxes</td>
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<td>• Environmental Management</td>
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Corporate Responsibility: a framework for response

Opportunity

Leadership:
- Reputation enhancement
- Stretching impact

Leverage:
- Wider change
- Inspiring others

Operational effectiveness:
- Reduce direct impact
- Organisational savings

Compliance:
- Operational risk
- Regulatory compliance
- Reputational risk

Risk

Even leaders in Sustainability are now re-evaluating their positioning!
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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.
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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.
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Corporate Responsibility: a practical reporting framework

- Market Overview
  - Competitive Environment
  - Regulatory Environment
  - Macro Environment

- Strategy & Structure
  - Goals & Objectives
  - Governance
  - Risk Framework
  - Organisational Design

- Managing for Value
  - Financial Assets
  - Physical Assets
  - Customers
  - People
  - Innovation
  - Brands & Intellectual Assets
  - Supply Chain

- Performance
  - Economic
  - Operating
  - Environmental, Social & Ethical
  - Segmental
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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?
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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?
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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

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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