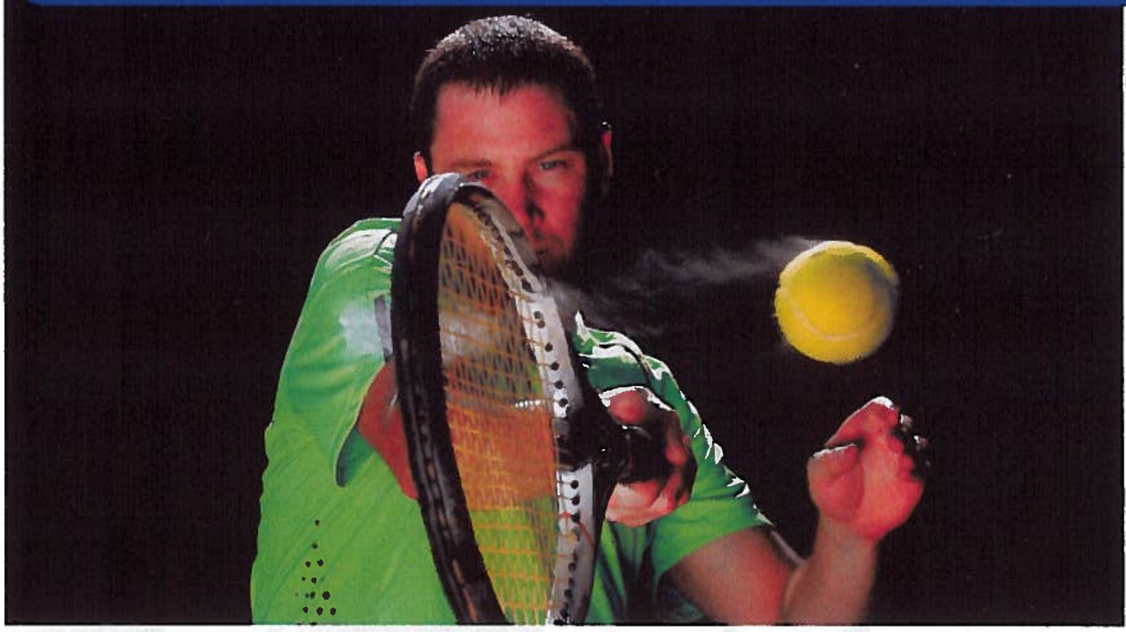


Essay

Focus on corporate impact and improve business performance

By Mandy Cormack and David Grayson

A new report from the Doughty Centre for Corporate Responsibility at Cranfield University explains how to develop an interactive approach to corporate sustainability

At the end of April, Unilever published its 2011 Progress Report on its Sustainable Living Plan. Nothing unusual you may say, nowadays, about a company reporting on progress to embed sustainability, but it then went on to convene a 24-hour online dialogue involving more than 70 company managers from around the world, to discuss the Sustainability Plan with more than 1,200 invited guests. In four parallel streams, two-hour blocks were allocated to topics ranging from sustainable sourcing, through sustainable production and distribution, to consumer behaviour change, recycling and waste.

Two things stand out about this event. First, the company tabled its whole "value chain" sustainability agenda – not just the easy bits, but the whole chain from sourcing right through to issues of consumer use and disposal of packaging and waste. Second, the company was comfortable that more than 70 managers could take to a public platform and discuss a flagship company strategy that covers the company's major social, economic and environmental impacts with an international audience of informed specialists and campaigners. Certainly the dialogue was a little laboured at times, as all exchanges were written, but as an exercise in transparency, it was an astonishingly bold step.

Stakeholder transparency

The day before the online dialogue, Paul Polman, Unilever's chief executive, and his top leadership team hosted a series of briefings with stakeholders in London, Rotterdam, Washington and other places around the world to explain successes, developments now ready to go to scale, and the things that were challenging them and proving hard to deal with, about the company's sustainability plan.

Can you imagine any of the major banks or financial service providers being willing and able to open up their management in a similar fashion – or their managers being able and willing to discuss their business practices with openness and ease?

Why have these disparities in the approach to sustainability arisen? Why are some sectors and, within them, some companies, so far ahead in embracing the sustainability agenda and integrating it into the heart of business practice, while others have been left behind?

Company responses to sustainability vary widely. Indeed, what exactly is meant and understood by the term is disputed.

We understand it to be managing both the risks and the opportunities of a company's social, environment and economic impacts. But since the concerted calls began in the 1990s, demanding greater responsibility in the management of corporate impacts on society, the economy and the environment, the gap between those who "get it" (the sustainability agenda) and those who don't, has widened.

Three broad responses can be seen: reactive, proactive and interactive. They display the following characteristics:

Reactive: those who grab at the first, easiest, response possible – a philanthropic cheque book and

Why are some sectors so far ahead in embracing the sustainability agenda?

a glossy brochure proclaiming the virtues of the company and its contributions to society.

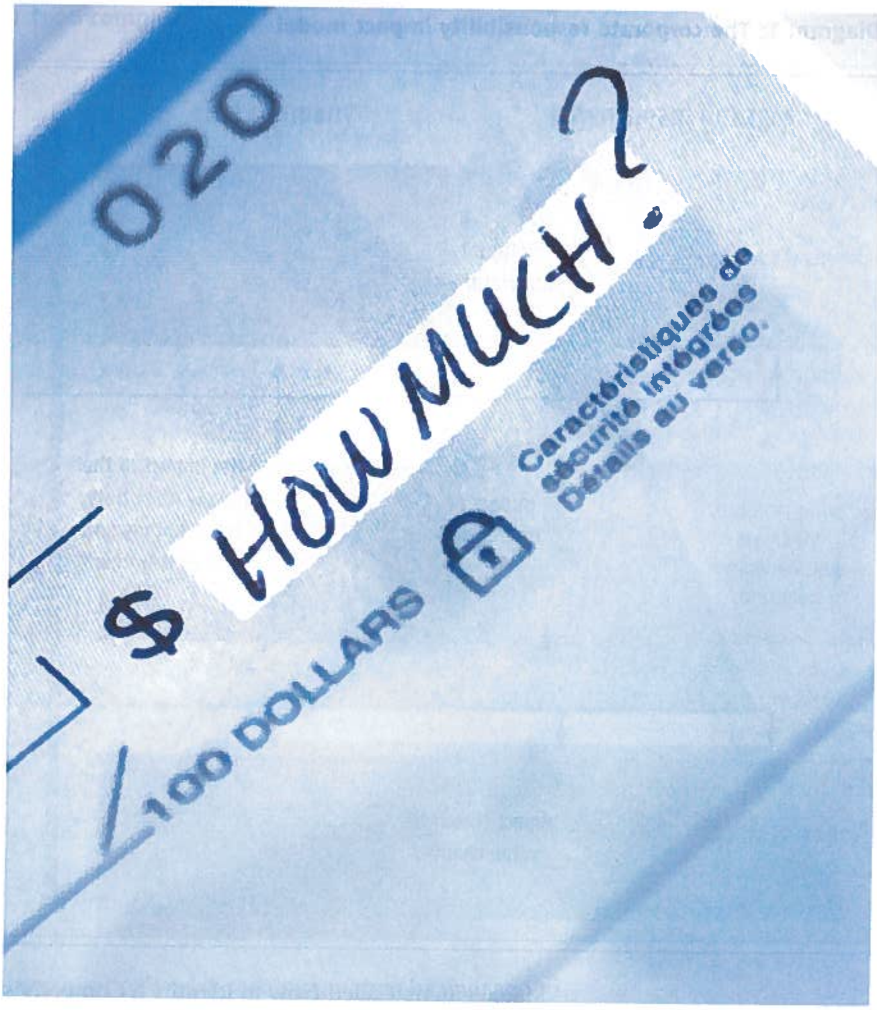
The contributions made, which can be significant (tax deductible) cash payments to charitable causes, are detached from the company's core operations that are the substance of corporate responsibility. In these companies, "CSR managers" are appointed to manage relations with the firm's chosen charities, but are strictly not allowed to concern themselves with questions of corporate responsibility or sustainability in the conduct of business. Society and the environment are externalities that are a nuisance, to be controlled, and to the extent possible, regardless of the platitudes expressed in the company's sustainability report, to be factored out just as fast as possible, in the pursuit of short-term profitability.

Proactive: the leaders in these companies, for whatever reason (competition, regulatory change, customer requirements), have been exposed to the reality that corporate responsibility is in fact about business practice. Whether it is a competitor who successfully launches a more fuel efficient machine and promotes it in terms of a "green business case", or a client who circulates a pre-bid qualification document requiring compliance (substantiated) with supply chain health, safety and employment standards, or a fairtrade labelled product which starts eating into your brand's supermarket shelf space, the need to be able to demonstrate corporate responsibility in their company's practices has brought chief executives up short.

Looking to deal with what many regard as a distraction from the real substance of business management, they have signed up for codes, campaigns and reporting schemes that allow them to tick the questionnaire boxes and get on with the real job of making the next quarterly results. Essentially it is still "business as usual".

Interactive: for leadership companies, whether in response to external challenges, or through the enlightened self-interest of internal leadership development, the question of corporate responsibility has been a wake-up call, a defining point in their corporate evolution and trajectory. Developing a deep understanding of their corporate and industry footprint – in society, the economy and on the environment, these leaders have realised the impacts their businesses have – intended and unintended, for good and bad. They have gone out, willing to learn from those with different perspectives and to understand the challenges their companies need to address.

In dialogue, they have explored the trade-offs and timescales of change in the search for sustainable development. They have stepped up to making, and accounting for, the decisions that frame their corporate strategies for success in the 21st century –



Chequebook philanthropy = wrong response

including making explicit their corporate values and managing social and environmental as well as economic outcomes.

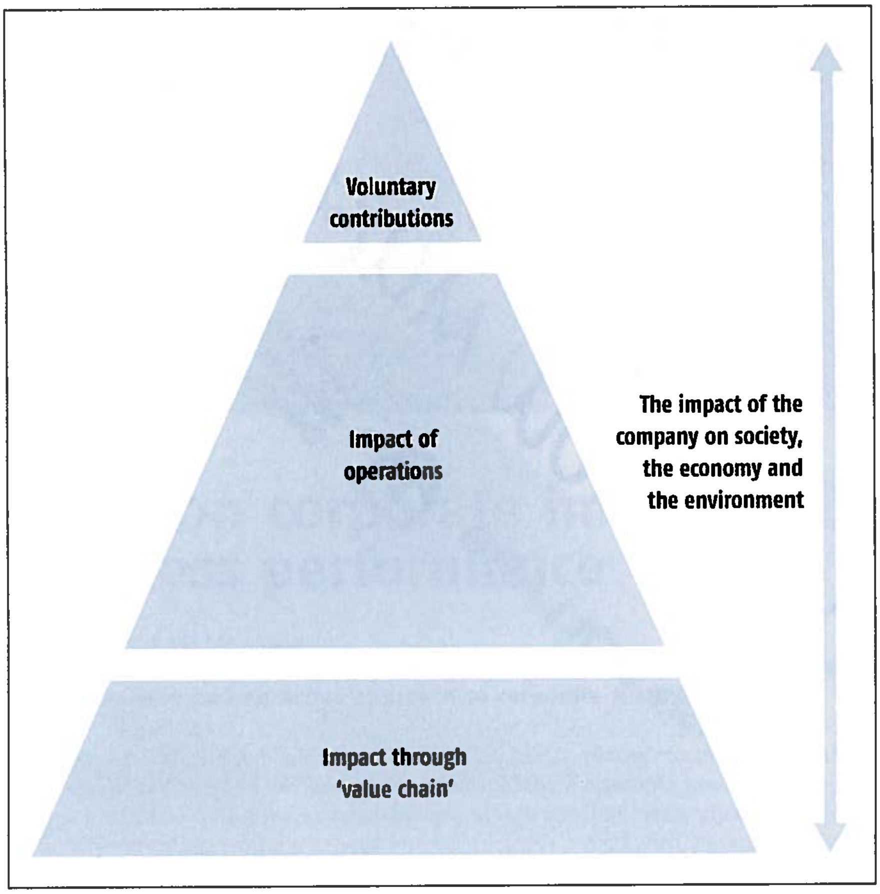
They have changed the rules of engagement with their stakeholders, not just shareholders, but customers, employees, business partners and business critics as well. As Paul Polman says of Unilever's plan, this is way beyond what Michael Porter calls "shared value". Whilst "shared value" may represent an advance for companies still in the philanthropy/community involvement mindset, the danger of "shared value" is that management may be deluded into thinking it is enough to find some core activity which has positive environmental and social impacts – and that they don't need to understand and address all their significant impacts – negative as well as positive.

For leadership companies, corporate responsibility has been a wakeup call

Impact management

To try and meet the needs of companies seeking to up their game and move from a reactive to interactive approach to sustainability, a new "how to" guide is being published by the Doughty Centre for Corporate Responsibility at Cranfield School of

Diagram 1: The corporate responsibility impact model



Management. Called How to Identify a Company's Major Impacts – and Manage Them, the guide distils best practice in identifying and managing company social, economic and environmental (SEE) impacts – the task at the heart of sustainability.

The intention is to show business leaders how to steer their organisations onto a successful and acceptable course so that SEE impacts "can be embedded into business purpose and strategy".

Learning from best practice will give impetus to a creative reponse

The guide opens with an introduction to the definitions and the key management concepts behind corporate responsibility. There are a number of drivers for change and the changes in mindset that typify the different stages in the evolution of management thinking about how to deal with company impacts.

Core operations

The corporate responsibility impact model (see diagram 1) clearly delineates that as good as a company's voluntary contributions to society may be, they can never substitute for the responsible management of a company's impacts on society through its core operations. Think of the scale of the impact of energy production, banking, or water utilities versus even the most generous philanthropic contributions to schools, community centres and tree planting and you will immediately understand these are two very different concepts.

The guide takes a practical approach to the challenge of impact identification and management and sets out, in three sequential sections: Five Steps to Get Started, Raising Your Game, and Getting Up With the Best.

The triangle of the corporate responsibility impact model focuses attention on the dominant areas of company activities when identifying and prioritising impacts.

Essential to getting going on a sound footing is the need to map and analyse a company's operations and value chain – from sourcing through operations to customer/consumer use and disposal.

This initial self-assessment of how and where a company impacts society, the economy and the environment, undertaken through collaboration between the management responsible for the company's activities, is the foundation stone on which all subsequent analysis and activities are founded (see diagram 2). And yet all too often it is approached in a "fire-fighting" piecemeal way leading to company executives being blind-sided as to their major SEE risks and opportunities. A company cannot manage what it doesn't know about. Working with a team drawn from across the business, a positive solution is to build a shared understanding of the company's SEE footprint, with the objective at this stage of "revealing" the company, not re-inventing it.

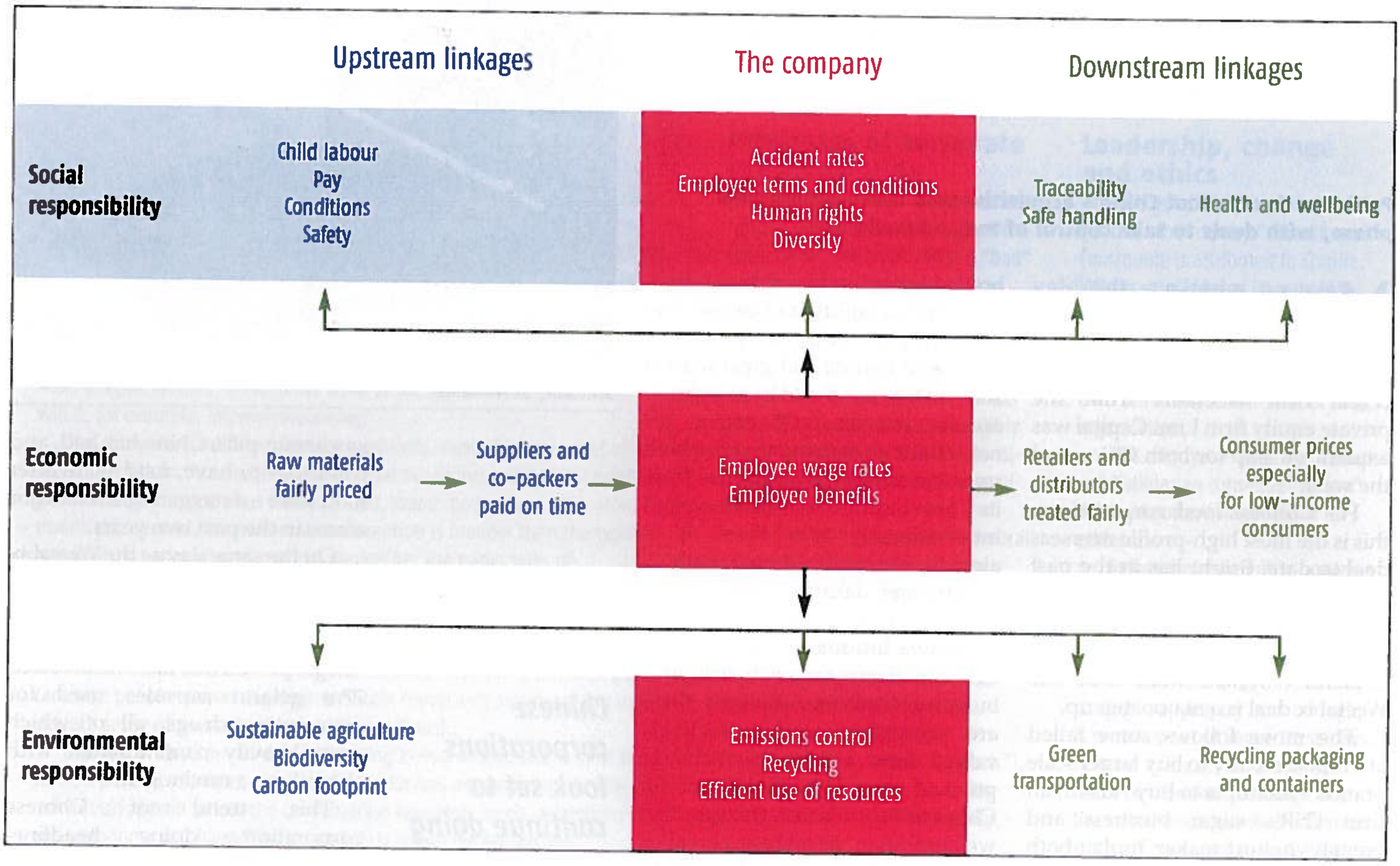
Raising Your Game describes the next five steps once a well-founded understanding of the company's impacts has been developed. Good housekeeping to general international and national standards is baseline performance; to raise its performance a company needs to focus on the handful of areas where it can make a tangible difference. Stakeholder awareness – trend, risk and opportunity evaluation, and materiality assessment – provide essential insights to help interpret a company's current performance and identify priorities.

Learning from best practice – in whatever country, industry, or company it may be found – will give impetus to a creative response. With these inputs a company is ready to prepare an action plan and communicate the plan internally and externally.

Getting Up With the Best explores five of the most challenging areas of SEE impact management. Social, economic and environmental impact analyses are developing their own sets of tools, including job multiplier, value added, and life cycle analyses, and ground-breaking work on valuing natural capital and creating an environmental profit and loss account. Open stakeholder engagement can provide new insights and opportunities; and scenario planning can drive whole new ways of thinking.

Management confidence grows as understanding of the agenda and company performance data

Diagram 2: Value chain input/output flow chart for food company



becomes available. By aligning and embedding the insights gained from SEE impact management into corporate strategic planning, corporate responsibility can be absorbed into mainstream business development opportunities and practices. The more ambitious a company's plans, the more important it is to support the implementation of strategy with a well-thought through communications plan – both internally and externally.

Draw on experience

There are a number of issues at the leading edge of SEE impacts management – implementing corporate responsibility strategy in times of corporate change; the importance of appointing corporate responsibility managers with the right skills to realistic positions; and the challenge of macro v micro corporate impacts. All practitioners can usefully draw on the particular dynamics and experience of for-profit companies tackling these issues.

Many insights from them may be helpful to public service providers and third sector organisations, many of whom are major organisations in their own right, with significant footprints in society, the economy, and on the environment. Cranfield's new guide seeks to reveal, and then prioritise, the perspectives of all stakeholders so that an organisation's relationships can then be engaged to help it in fulfilling its strategic objectives (whether for profit, or not).

For SMEs, particularly, very small companies that employ maybe a handful of people, some of the tools for measurement – more applicable for larger organisations – will not be as useful. But the mindset and many of the techniques can be successfully and universally deployed to increase the positive, sustainable impact of operational activities.

The latest MIT Sloan Management Review Sustainability Survey, conducted with BCG, concludes from a global survey of managers that "sustainability nears a tipping point". Its authors argue, however, that "it can be years for an organisation to effectively take advantage of sustainability-related opportunities" because of the need to establish data-capture methods and processes for sharing information.

Certainly, Unilever was only able to launch its Sustainable Living Plan because of the detailed work undertaken through its brand imprint process to establish the most significant social, environmental and economic impacts of each major brand; and through earlier exercises to scope impacts. Understanding and managing significant impacts is key to embedding sustainability successfully. ■

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