Doughty Centre Corporate Responsibility

Cranfield UNIVERSITY
School of Management

How to Identify a Company's Major Impacts – and Manage Them

A Doughty Centre How-to Guide (#7 in series)

Doughty Centre, Cranfield School of Management
Mandy Cormack
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THE DOUGHTY CENTRE FOR CORPORATE RESPONSIBILITY

The Doughty Centre aims to combine rigorous research and leading-edge practice. The centre focuses on three things:

- knowledge creation: rigorous and relevant research into how companies can embed responsible business into the way they do business;
- knowledge dissemination: introducing Corporate Responsibility (CR) more systemically into existing graduate and executive education (both in relevant open programmes and customised, in-company programmes); and
- knowledge application: working with alumni, corporate partners and others to implement our knowledge and learning.

The Doughty Centre welcomes enquiries for collaborations, including around:

- advising and assisting organisations at various stages of the sustainability journey, either as a Resource Exchange partner or via our Advisory Services;
- design and delivery of organisation-customised and open learning programmes around CR, sustainability or public-private-community partnerships;
- speaking and/or chairing conferences and in-company events;
- facilitating organisations in the public, private or voluntary sectors who wish to produce their own think-pieces/'white papers' on CR, sustainability or public-private-community partnerships;
- practical projects to embed CR in an organisation;
- scenario-development and presentations to help organisations envision a more responsible and sustainable future;
- and co-creation and joint publication of research, think-pieces and practical 'how-to' guides.

Mandy Cormack

Mandy Cormack is an advisor/practitioner in international CR practice and a Non-Executive Trust Director and is a visiting fellow of the Doughty Centre for Corporate Responsibility. She guides companies and organisations on the practical dimensions of CR and sustainability as an integral part of their operations. Assignments have included: International CR Advisor at TNT NV; Interim Director CSR at Laing O'Rourke PLC and CSR Strategy Consultant to Imperial College, London and the Greater London Authority. Formerly Vice President Corporate Responsibility/Head Corporate Relations, London for Unilever, she was the senior management team member responsible for developing the company's approach to CR to 2005, including ground-breaking work with the not-for-profit sector. Mandy is a Non-Executive Director of the grant-making Joseph Rowntree Reform Trust where she has sponsored projects exploring the reform of political party funding and CR in the news media. Mandy is a graduate of the London School of Economics (BSc Econ International Relations) and has studied at Harvard Business School.

Foreword

A steady flow of surveys over recent months from management consultancies such as Accenture, BCG, KPMG, and McKinsey are all showing a majority management opinion that sustainability matters to business. One in particular, the latest annual survey of 4,000 managers in 113 countries by MIT Sloan Management Review and Boston Consulting Group[i], shows the proportion of managers who say they think that 'sustainability' is a key to competitive success has risen from 55% in 2010 to 67% last year. This is consistent with our own 2011 Doughty Centre report with Business in the Community, "The business case for responsible business" which suggested seven broad areas of potential business benefit such as employee engagement, innovation, and improved operational effectiveness.[ii] We are clear, however, that these benefits don't just happen. Sustainability requires consistent, hard work over time.

Corporate responsibility – the responsibility a business has for its social, environmental and economic impacts – requires a company to understand just what these impacts are. Historically, this has been problematic because:

- Scoping and managing impacts was not seen as the responsibility of business
- The tools and processes for identifying those impacts barely existed
- And only a few managers in some pioneer businesses knew how and why to use such tools as did exist

Interestingly, this appears to be an area where the practice has been ahead of the theory. Academic literature on scoping business impacts – beyond the scoping of environmental impacts – is sparse. How to scope a firm's material social and economic impacts, or how to look at the totality of corporate impacts, needs more rigorous, academic study.

Identifying and prioritizing the management of impacts is an essential pre-condition for companies to improve. Without this, businesses are increasingly at financial and reputational risk; will lack the data subsequently to be able to measure and report, for example, to the Global Compact or against the Global Reporting Initiative (GRI); and certainly will not be able to reap the benefits of systemically finding new business opportunities from sustainability.

One of the vanguard companies in managing social, environmental and economic impacts is Unilever. As the old adage goes, success has many parents and failure is an orphan. Many people share the credit for developing Unilever's methodology – but one of those is Mandy Cormack, who served as Vice President for Corporate Responsibility and worked for many years with Niall FitzGerald and Morris Tabaksblat on Unilever's approach to corporate responsibility. Mandy has been involved with the Doughty Centre from its inception, and I was delighted when in 2011 she became one of our visiting fellows. We like our visiting faculty to be active participants in the Centre, contributing in ways which suit them and us, and which play to their strengths. It was logical, therefore, to invite Mandy to reflect both on her Unilever experience and subsequently as an adviser to other firms – and to draw on the insights of other, leading corporate responsibility practitioners – to develop this guide. The Doughty Centre team have thoroughly enjoyed working with Mandy on this project, are delighted with the result and thank Mandy for her dedication and commitment to the project.

As with our previous six How-to guides, the intention is to blend relevant scholarship with the latest good practice, and to synthesise this for busy managers. This guide fills a gap – not just in our own how-to advice to Masters students and for our executive education – but in the advice generally available about how to embed sustainability.

Whether you are just starting out, have already covered the basics, or are one of the still small number of companies that have already started to identify and scope social environmental and economic impacts systematically, this guide offers practical advice and insights. The key message is that practice makes better, so just do it!

David R. Grayson

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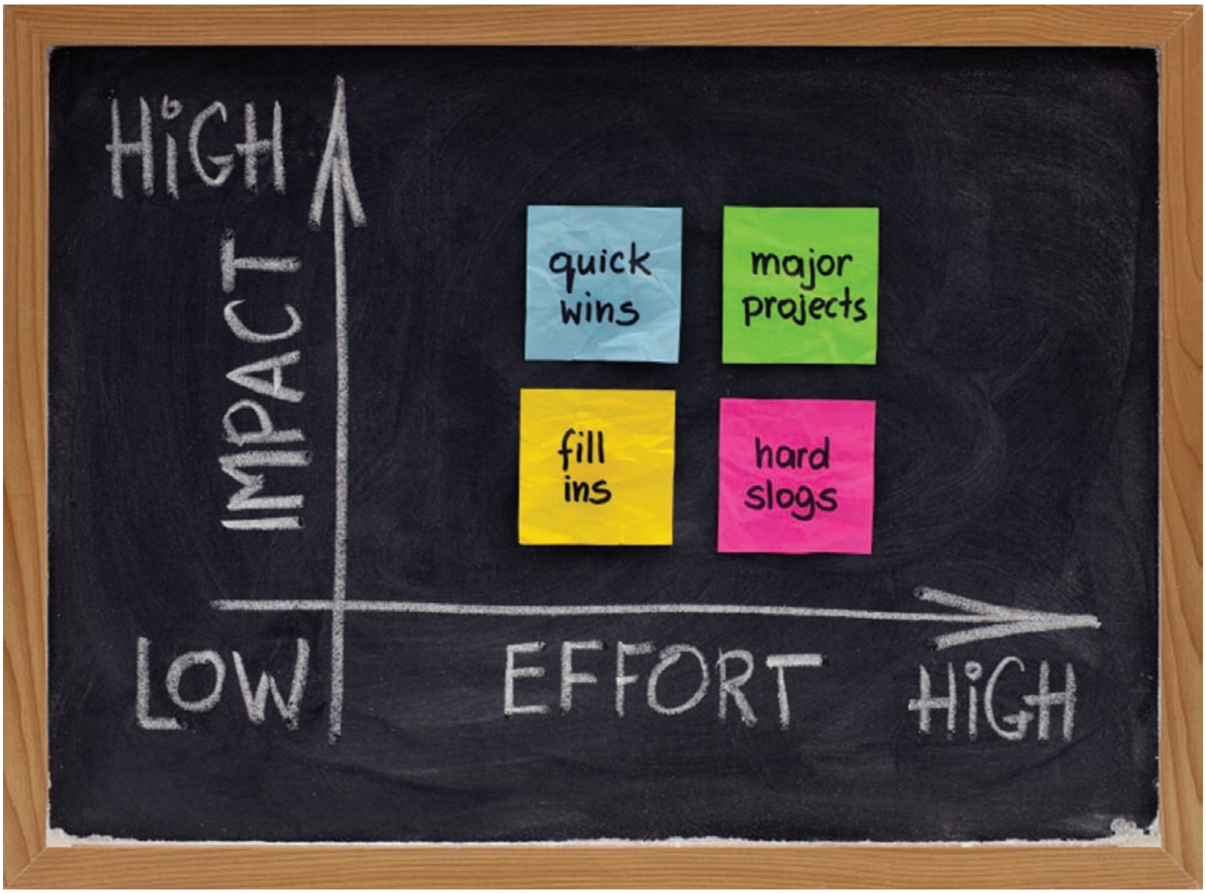
Acknowledgements

I would like to thank David Grayson, and his colleagues Nadine Exter and Mattia Anesa at the Doughty Centre for Corporate Responsibility, Cranfield University for their support and encouragement in writing this paper and bringing to it the wealth of their academic knowledge; David Logan of Corporate Citizenship with whom I have worked for many years, and who has been an indefatigable source of inspiration and guidance; Gavin Neath, my successor at Unilever who has done so much to take forward the corporate responsibility agenda; Richard Morgan at Anglo American for the moderating influence of his urbane charm; David Bent at Forum for the Future for his provocative thinking; and Geoff Lye at SustainAbility for challenging me to think further. My thanks go also to the invitees and participants in the initial Roundtable that kicked off this Guide: Robert Nuttall, Toby Shillito, Dominic Vergine, Elodie Grant Goodey, John Williams, Adrian Hodges and Charlotte Grezo – it was an illuminating discussion and convinced me that a practical guide in this area would be both popular and timely. I hope the Guide will live up to your expectations - any errors or omissions are, of course, entirely mine.

Mandy Cormack



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Introduction

Corporate responsibility (CR) – or sustainability management – is an exciting area of management theory and practice that has developed in leaps and bounds in the last 15 years. From modest origins, a growing body of corporate practice is emerging that recognises that business has a leading role to play in helping society to adjust to living in a resource constrained, socially challenged world. A driver of innovatory practices in all aspects of management, CR has been the cause of some of the most creative and energising objectives, strategies, and structures to be seen in the corporate sector. But it is not without its critics and detractors. Cries of 'greenwash' and 'humbug' have greeted some companies loudly proclaimed aspirations to be the greenest, most ethical, most sustainable, or most responsible. Others have grumbled that business should focus on the business of business – making profits. And yet others have queried how 'good' a shampoo needs to be – pointing out that "...*it is primarily up to governments – not companies – to set the rules and pursue wider social aims."* [iii]

Corporate responses to the challenges of CR

What have companies been doing that has given rise to this chorus of criticism? In a paper I wrote in 2006 with the former Chairman of Unilever, Niall FitzGerald, we explored 'The Role of Business in Society' and outlined an 'Agenda for Action'. [iv] Our aim was to step back from the polarised arguments of the pro- and anti-capitalists, to demystify and explain the role of a company as a practical social construct to achieve desired outcomes (goods and services), and to bring business in step with the developing expectations of societies around the world for responsible corporate behaviour. [v] The paper focussed on the importance of companies, their Boards and Senior Executives, understanding how their activities impacted on society, the environment, and the economy.

In the intervening years, I have worked with different companies and organisations in a range of sectors and had the opportunity both to observe corporate responses to changing societal expectations, and the privilege of being invited to work with some on programmes to address their impacts. The three main responses observed from companies, to the calls for greater responsibility, can be typified as reactive, proactive and interactive.[vi] They display the following characteristics:

- **Reactive:** those who grab at the first, easiest, response possible – a philanthropic cheque book and 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 CR. In these companies, CR Managers are appointed to manage relations with the firm's chosen charities, but are strictly not allowed to concern themselves with questions of CR 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 of business thinking just as fast as possible, in the pursuit of short term profitability.

- **Proactive:** the leadership in these companies have, for whatever reason (competition, regulatory change, customer requirements) been exposed to the reality that CR is 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 fair trade labelled product which starts eating into your brand's supermarket shelf space – the need to be able to demonstrate CR 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, many 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's 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 CR 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 their search for sustainable development. They have stepped up to making, and accounting for, the decisions that will frame their corporate strategies for success in the twenty-first century – including making explicit their corporate values in 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.

This guide had been written to distil the learning from working with different organisations on identifying and managing their impacts – a task at the heart of CR. 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. As part of the Doughty Centre 'How to do CR' series this guide does not cover all aspects of the management of CR, for example, governance. References are given to other guides in the series, along with further reading on the subjects.

Guide structure

Section 1 (Definitions, drivers and mindset) introduces the first building blocks: the **definitions**, and the key management concepts behind CR. It explores the **drivers for change** and the **management mindset** that typify the different stages in the development of management thinking about impacts. It describes the **CR Impact Model**.

Section 2 (Getting going: Five steps forward) gets you started with five essential steps to identifying and managing impacts, including **self-assessment**, **interpretation**, and **contextualisation** of company activities. The company can't manage what it doesn't know, and working with your team of 'CR Champions', you can **capture 'good housekeeping**[1]' and **build a shared understanding of your footprint**. The objective is to reveal the company, not to re-invent it, especially not to some pro-forma standard.

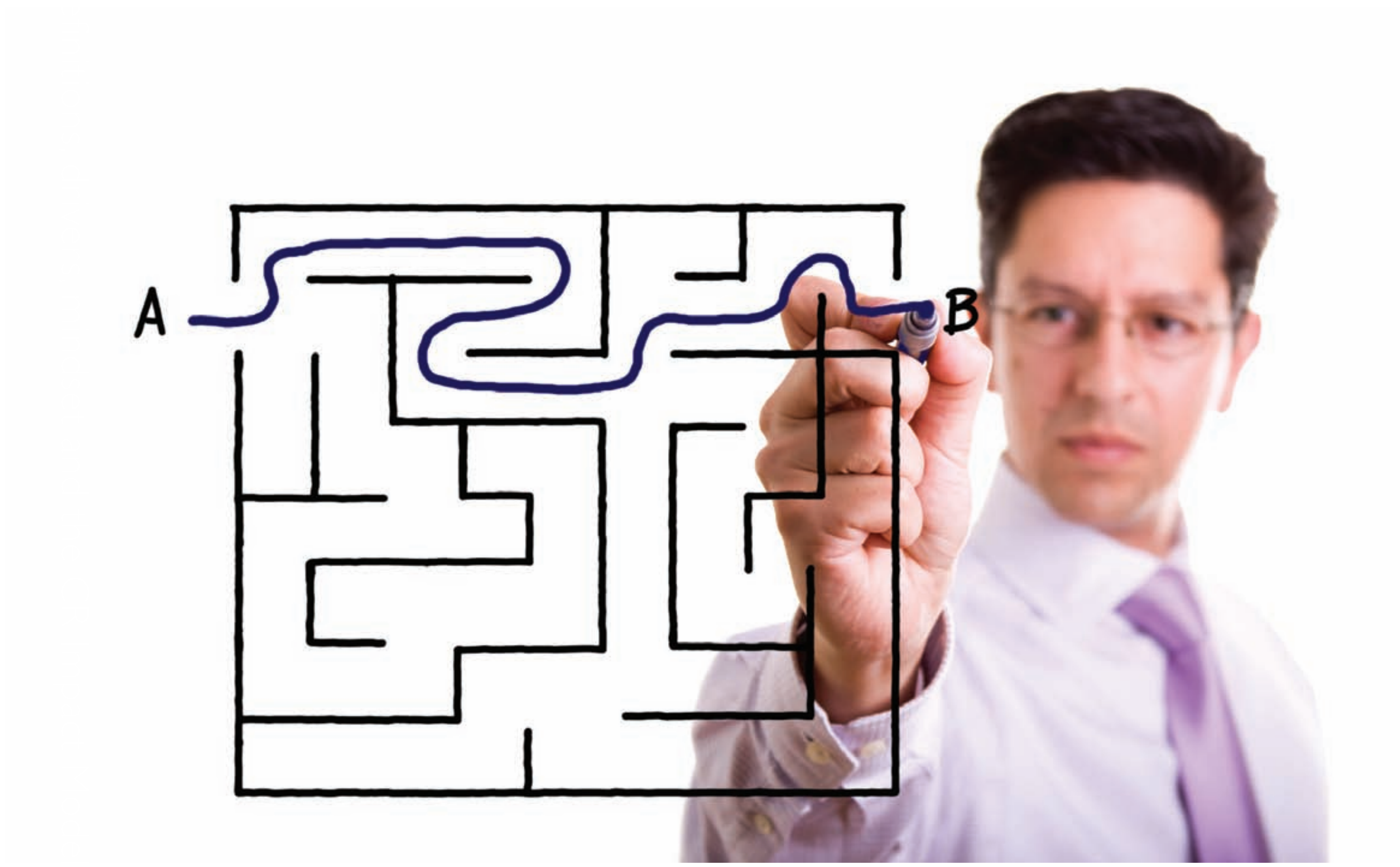
Section 3 (Upping your game: Five more steps) explains how to prioritise your company's impacts. Good housekeeping to general international and national standards is baseline performance – to raise your performance you need to focus on those handful of things, where your company can make a tangible difference. **Stakeholder awareness; trend, risk and opportunity evaluation**, and **materiality assessment** provide essential insights to interpret your 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 you are ready to prepare an **action plan** and **communicate the action plan internally and externally**.

Section 4 (Getting up with the best: Five challenges) describes some tools and techniques to get up with the best. Social, economic and environmental impact analyses are developing their own **sets of tools. 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 becomes available. By aligning and embedding the insights gained from **SEE impact management into corporate strategic planning**, CR can be absorbed into mainstream business development opportunities and practices. The more ambitious your plans, the more important it is to support the implementation of strategy with a well thought through **communications plan** – both internally and externally.

Section 5 (CR challenges and the future) explores some of the CR issues at the leading edge of SEE impacts management – **implementing CR strategy in times of corporate change;** a **CR manager's roles and responsibilities;** and the **challenge of macro vs. micro impacts**. To conclude, the section takes a look, from either end of the spectrum, at the **pretender theories of CR**, and the **game changers**.

The guide has been written for, and draws on, the particular dynamics and experience of for-profit companies. The insights may also be helpful to public service providers and third sector organisations, many of whom are powerful organisations in their own right with significant footprints in society, the economy, and on the environment. The guide seeks to reveal, and then prioritise, the perspectives of all stakeholders so that the organisation can take these into account 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 will not be relevant, but the mindset and many of the techniques can be successfully deployed to increase the positive, sustainable impact of operational activities.

[1] 'Good housekeeping' is a UK term meaning 'good, effective internal operational practices'.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1. Setting the scene: definitions, drivers, mindset and the CR Impact Model

In setting out on the journey to managing your impacts, it is helpful to set the scene: to be clear about the key terms and definitions, the drivers for change, the mindset of management, and to have a Corporate Responsibility Impact Model to help frame your analytical approach.

1.1 Sustainability, corporate social responsibility and CR

Terms and Definitions

Sustainability: meeting "the needs of the present without compromising the ability of future generations to meet their own neeeds" (Brundtland Report 1987)

Corporate Social Responsibility: the duties owed by a corporate entity to society, both statutory and voluntary obligations

Corporate Responsibility: the responsibility an enterprise has for its impacts – social, environmental and economic

There are two foundational terms:

- **Sustainability**, in the context of CR, is understood to have the Brundtland meaning of *"...meeting the needs of the present without compromising the ability of future generations to meet their own needs."* [vii] This definition was established in the 1980s in the Report of the UN-appointed Brundtland Commission 'Our Common Future', which aimed to bring countries together to work for sustainable development. It has been widely taken up internationally, across the governmental, non-governmental and corporate worlds.
- **Corporate social responsibility** can be defined as the duties owed by a corporate[2] entity to society, including both statutory and voluntary obligations.[viii] [3] This definition is linked back to the debates in the 1970s over the extent of the responsibilities of transnational corporations in developing economies which resulted in the OECD Guidelines for Multinational Enterprises (first edition in 1976, followed by six subsequent revisions). Current usage is such that while 'sustainability' may have originated from a focus on environmental impacts, and 'CSR' from a focus on social/societal impacts, they have converged in the term 'corporate responsibility' (CR).

Corporate responsibility has been defined by the EU Commission as *"...the responsibility an enterprise has for its impacts"* (environmental, social, and economic)[ix]. The three terms are now used interchangeably, although with slightly different nuances and priorities.

The evolution of the language continues with a debate around whether a commitment to 'corporate sustainability' represents a more advanced stage of development. In their 2008 Sustainability Yearbook, PwC/SAM[x], defined corporate sustainability as *"...a business approach that creates long-term shareholder value by embracing the opportunities and managing the risks associated with economic, environmental and social developments."* In essence, a focus on the opportunities created by SEE impact management represents leading practice. No doubt the debate over terminology will go on.

1.2 Footprint, value chain, lifecycle

Terms and Definitions

Footprint: total impact or imprint of the company

Value chain: all processes involved in delivering goods or services from sourcing to disposal

Lifecycle: from sourcing through to disposal – normally of the product or service

The second set of terms that are used widely in CR are 'footprint', value chain' and 'lifecycle'.[xi]

A company's **footprint** is the total impact or imprint of the company, its products or services, operations, voluntary community involvement, purchasing and sales. This concept may seem obvious, but a company can be blind-sided[4] to the different perceptions its stakeholders have of different aspects of its footprint. For example, a new factory to the company may mean new sales and new jobs, but may mean loss of green space and increased pollution to the community. Understanding your footprint is crucial for managing your company's impacts. A company's footprint is created not just through the company's direct operations, but also through its value chain.

[2] Corporate in this case refers to an organisation, not necessarily a commercial 'for profit' company.
[3] Please refer to section 1.6 for a discussion on the different duties of companies.
[4] Blind-sighted is a UK term meaning 'to be blind to/to not see'.

The **value chain** is defined as all processes involved in delivering goods or services – from sourcing to disposal. It is no longer accepted that a company's responsibilities end at the factory gate or the banking hall door. The responsibilities may differ in who carries them out and how, but just as a company can claim credit for the quality of its products from 'farm to fork'[5], so it is expected that a company can exercise responsibility for the impacts along its value chain.

The third term that is widely used is **'lifecycle'**, meaning from beginning to end of life; that is from sourcing to disposal – normally of the product or service, rather than the company. Lifecycle analysis (LCA) is notoriously difficult to do because of the problems that arise in disaggregating and measuring impacts from inception, through use, to disposal. But it is widely agreed to provide a useful framework for identifying gross, and directional, impacts.

1.3 Social, economic, environmental

Terms and Definitions

SEE – the three key aspects of Corporate Responsibility:

Social
Ecomomic
Environmental

'Triple Bottom Line'

The impacts that are at the heart of CR are defined as Social, Economic and Environmental (SEE), sometimes called the 'Triple Bottom Line'.

- **Social impacts** include, for example: working conditions, the safety of products/services; complying with the spirit as well as the letter of the law; treating suppliers and distributors fairly; good community relations and respecting the human rights of those impacted by the operations of your company. They are all about what impact your company has on society.
- **Economic impacts** include, for example: creating fairly rewarded jobs; paying taxes responsibly; generating sales and profits; combating bribery and corruption; investing in innovation, training and development. Your company's performance in terms of its economic impacts will affect society as well as the economy.
- **Environmental impacts** include, for example: using energy and resources efficiently; minimising waste and emissions; using environmentally sound materials and energy; protecting biodiversity. Environmental impacts are increasingly being identified and costed as the stark consequences of unrestrained, and often un- or under-costed, use of natural resources becomes increasingly understood. For many companies this can be a wake-up call, bringing a new awareness to the likely future costs of operating their business, and the need for innovation now to be prepared for the environmental demands of satisfying markets in the future.

Impacts may overlap between the three areas. Successfully exercising responsibility in all three areas requires challenging and complex trade-offs.

The **'triple bottom line'** is a phrase adopted for the concept of SEE performance reporting, popularised by John Elkington (leader of an environmental think-tank, SustainAbility) in the 1990s, that companies don't just have one bottom line (financial), but also social and environmental bottom lines – hence 'Triple Bottom Line' (TBL).[xii] The concept of the TBL has proved useful in framing a way to report on an organisation's performance that gives equal prominence to all three areas of a company's impacts and so provide a snapshot of its sustainability performance at a particular moment in time.

Tools for understanding, analysing and measuring SEE impacts are under constant development (and are discussed in Section 4.1). In the case of **economic** impacts, these tend not to be as well defined as they should be, and often financial reports are used as a substitute. Care needs to be taken in recognising the limitations of financial reports for economic impact measurement. Employment costs, for example, are only evaluated in terms of their impact on profitability with no consideration of the wider social and economic gain from good employment practices, terms, and conditions.[xiii]

1.4 Drivers for change

Behind any company's decision to identify and manage its CR impacts there will be a number of drivers that will influence the priority given to different impacts, one (or more) of which will be the source of the impetus to change. Table 1 provides six frequent drivers for change.[xiv]

[5] A term referring to the start of the value chain (e.g. a farm for food) to the end of the product life (e.g. the fork we use to eat the food).

Table 1: CR impacts – frequent drivers for change

Driver for change	Examples
Customer requirements	Business to business examples: new SEE pre-qualification requirements for inclusion on bid list; supplier standards; license terms
Competition (local, national, international)	Introduction of new product or service (e.g. Toyota Prius) , or new parameter to competition (e.g. Organic, Fair Trade, Eco-friendly, Farm Assured); new market entrants (US food retailer Whole Foods); transfer of stakeholder expectations (e.g. minimum supply chain labour standards) from one industry (fashion and sports e.g. US companies Nike, GAP) to another (e.g. IT industry and Apple problems with supplier Foxconn)
Regulatory change (local, national, international)	Waste/recycling directives (WEEE Directive); congestion charging in inner city areas; employment legislation; health and safety; the UK Bribery Act
Leadership (by individuals and by companies)	New directors/managers (e.g. Stuart Rose previous Chairman of Marks & Spencer, Paul Polman CEO of Unilever); acquisition/merger; new ownership (e.g. Stef Kranendijk CEO of DESSO committing to Cradle to Cradle manufacturing); new company (e.g. Body Shop, Patagonia, Grameen Bank); leadership insight (e.g. Ray Anderson CEO of Interface, Mads Ovlisen, CEO of Novo Nordisk)
Stakeholder dissatisfaction (slow to register, time-consuming to manage, slow to dispel)	Shell (Brent Spar – Shell encountered unexpected protests led by Greenpeace over plans to dispose of a redundant oil rig by sinking it in deep waters – subsequent research confirmed Shell's disposal plans were the best scientific solution); Nestle (Infant Formula problems); Apple (problems with supplier Foxconn); News International (problems with actions taken by staff at News of the World)
Consumers (segment – B2C – and watch out for C2C)	Consumers have a mixed track record in driving SEE change – the impact of boycotts, for example, is frequently overstated. The key is not to see consumers as undifferentiated, but to segment them. For example, Havas CEO David Jones identifies the game-changing power of new social consumers –'prosumers' (proactive, influential consumers), and 'Millennials' (defined by their birth year) 'the best educated and informed generation of young consumers the world has ever seen' who are articulate and unafraid to voice their concerns where they see a 'legitimacy gap' or breach of 'social contract'. They will take their custom elsewhere – think organic products, fair trade, Craigs List, Groupon, Zipcar

As is explored later in this guide (Section 3), the importance of the driver for change will be magnified if it originates with a priority stakeholder group for the company. In the early stages of impact identification the key points are to:

- recognise what is driving the need to understand and manage the company's impacts
- consider that there may be more than one driver
- understand the drivers as they will form an important part of the business case when it comes to developing the CR impact management strategy.

Leading companies also acknowledge the potential opportunities for business development the driver(s) for change offer and the benefits to be gained by taking a positive, proactive approach to addressing them.

Table 2: Responding to drivers for change - management mindsets[xvi]

Mindset	Boundaries of responsibility	Risk mitigation	Business opportunity
Reactive	Narrowly legal	Defensive	Not available
Proactive	Establish limits to liability up and down stream	Engage with business partners to spread accountability for risks	Limited
Interactive	Deep exploration of SEE footprint and willingness to work with others enables exploration of trade-offs and timescale for change to sustainable management practices	Risks are contextualised in commitment to mitigate negative impacts and extend positive contributions as company commits to building a sustainable business	Wide open – new ways of thinking and working open up new business opportunities

1.5 Management mindset, values and culture

When confronted by the drivers for change management may adopt one of two different approaches which will be influenced by their mindset. On very rare occasions they will adopt a more holistic stance and look at the business opportunity the drivers for change present; but this will normally, come only after an initially defensive response.

1.5.1 Boundaries of responsibility

The first question asked is what are our responsibilities? What are the boundaries or limits of our responsibility? For companies asking these kinds of questions, what is important for them, is to establish the hierarchy of responsibility for their impacts: [xvii]

- **From** direct responsibility for owned operations
- **Through** responsibility exercised through contractual obligations for the behaviour of business partners and co-producers[xviii] in the value chain
- **To** the influence exerted either through the company's own efforts and behaviour, or in conjunction with others (often at an industry level) at a broader societal level

1.5.2 Risk mitigation

A different approach is one taken by companies who are essentially concerned about risk – what are the risks they should be anticipating. For these companies often the first steps are to comply with external standards in the management of impacts and to develop strategies to manage any risks that may arise to corporate reputation. This is a perspective frequently found among managers assessing environmental impacts. They focus on the impact the company itself makes on the world and the risks these impacts pose to the business and reputation of the company.

However, the risk management mindset will need to move on to a more 'interactive' assessment of strategic risks, that is to say, in addition to assessing the risks of its own actions the company will need to consider the impact of SEE externalities on its own operations and ability to perform[xix]. For example:

- Will there be the resources/technology/energy necessary for business operations at a reasonable cost within the company's planning horizon?
- Will agricultural supply/ technological change/energy pricing seriously curtail the company's ability to compete? [xx]

1.5.3 Business opportunity

One of the most notable features of embarking on the identification and management of a company's impacts is the potential for business development in the widest sense. Your first rough assessment may be that the company's greatest impacts are in its use of resources in manufacturing its products, or, in the case of a service provider, in the embedded intellectual property in the services you provide to your client. The initial work is therefore focussed on analysis of the use of those resources.

It is only after you have done this initial assessment it becomes clear that, in the case of the manufacturer, far greater resources are being used in your value chain – that is by your suppliers and customers. For the professional service provider, the growing understanding of SEE impacts may give you an insight into your clients' reliance on your broader understanding of, for example, regulatory trends in the market, offering you the opportunity to enhance your service provision. So having developed plans to reduce your immediate impacts you can then turn to enhance a wider set of impacts and grow your business.

The second phase may take the manufacturer into a quite new exploration of supplier operations, or in a totally different direction of understanding products in use – from distribution through to disposal. At each stage there is the opportunity for business and SEE benefit, whether for example through cost-saving, emissions reduction, innovation in terms of new products and services, access to new or under-served markets, and/or new business models. [xxi]

Understanding management's mindset will enable you to address their most pressing concerns as you develop your response.

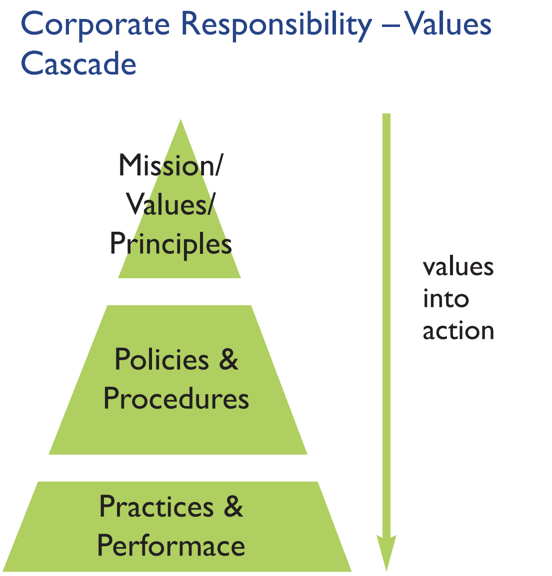
1.5.4 Values

The second area of management thinking that needs to be clearly understood is the values by which the company operates. All companies have values but they are not necessarily sufficiently developed or sufficiently explicit. Broadly acknowledged business values include, for example, quality, profitability, value for money, reliability. A business' ethical values may include honesty, trust, respect, fairness. Each individual business will have its own combination that adds up to 'the way we do things around here'. In owner-run businesses the values by which the company runs frequently remain unexpressed; they are just the 'gut feelings' and instincts the owner has grown to rely on in building business success. They are, nevertheless, present.

In leading public companies statements of mission, values and/or principles outline the behaviours expected of all those who work for the company and which all those who have dealings with the company can expect to receive. These statements provide an essential reference point in understanding company activities in multi-cultural, international markets where different societies accept different norms of behaviour in the corporate sector. They provide a standard against which SEE impacts can be evaluated and management held to account. [xxii]

For impact management, a company's values need to be explicit, as a leadership statement (Mission plus Code of Principles or Conduct) and as they cascade through the business (via policies and procedures) (Figure 1, overleaf).

Figure 1: Values cascading through the organisation (developed by D Logan[xxiii])



The simplest form is to combine a statement of the mission or purpose of the company, and a Code of Conduct (see Section 2.4 for more on this). This will provide clear guidance to managers about the framework of ethics and values within which they are to carry out the company's business. It will also provide a clear standard of behaviour against which the company's actual behaviour can be evaluated.

1.5.5 Learning cultures

Critical to the success of impact identification and prioritisation is a learning culture within the company – the ability of the organisation to learn and bring these lessons into the collective understanding and practice of the organisation, and how its culture enables or hinders this.[xxiv] The CR/sustainability agenda pervades all aspects of operations and while this guide will concentrate on 'doing a few things well' in order to give focus and priority to the SEE programme, overall operating practice that is consistent with and supportive of the programme's objectives will be essential to mitigate the risks and maximise the opportunities it opens up for the company.

1.6 The CR Impact Model

Having clarified the background terms and definitions, the drivers for change and management mindset, values and culture, the analytical frame of reference for a company's SEE impacts can now be described in context.

A company's impacts on – or interaction with – society, the economy and the environment can be seen in three distinct areas:

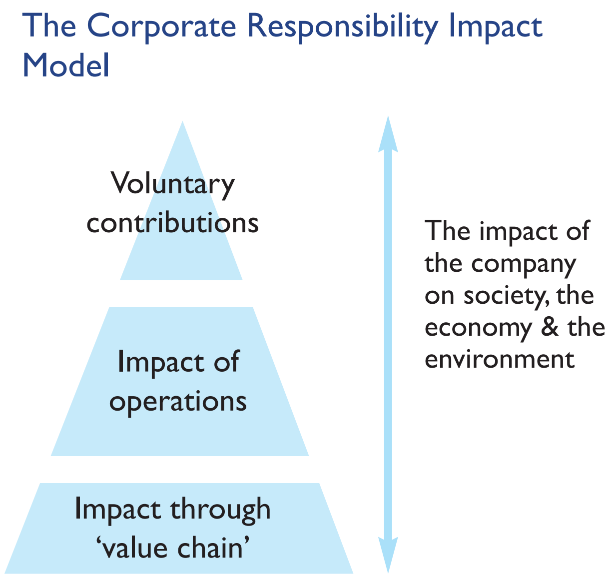
- the company's own operations (those that are directly under its control),
- the company's activities through the value chain,
- and the highly visible, but much smaller voluntary contributions it makes.

Figure 2 is a model developed by the consultant David Logan, The CR Impact Model, which illustrates the total impact of the company divided into three principal areas: impact of operations; impact through the 'value chain' and voluntary contributions.

The largest impact is through core operations – the products and services the company sells, the way it conducts itself in its business dealings, and how it manages its direct operations.

The second major area of impact is in its value chain that is from sourcing, through co-production, to distribution, and consumer use and disposal. For some companies with a highly out-sourced business model the value chain may, in fact, represent a larger proportion of turnover than the company's own in-house operations. For example, a construction company may spend as much as 60% of managed turnover through its external supply chain. Its greatest impacts may therefore be found in the products and services, and standards and behaviours of its suppliers.

Figure 2: The CR Impact Model (D Logan[xxv])[6]



The third area of impact is in the company's voluntary contributions. As can be seen from the pyramid, voluntary contributions are the highly visible 'tip of the iceberg', but their impact pales into insignificance in comparison with the overall impact of the company's operations. This has not stopped the leadership of some companies focussing on their voluntary and philanthropic activities as a way of responding to society's concerns about corporate responsibility. Such a response is wholly inadequate in an environmentally-damaged, resource-constrained, and socially-challenged world. No matter how generous and creative voluntary contributions are (and they are rarely more than 1-2% of pre-tax profits), they cannot substitute for the impact of the actual business, conducting its operations in a responsible, sustainable way.

A company's major impacts are to be found in its own operations and in the activities of all those involved in its value chain from sourcing, through co-production, distribution right through to consumer or client use and disposal of products.

Understanding this core concept is central to identifying a company's major impacts. How to take the concept forward is the subject of the next section.

[6] This model has similarities to the theoretical analysis offered by academic Carroll's 'Pyramid of Corporate Social Responsibility' which looks at duties of a corporation. Carroll describes companies' responsibilities via four different categories: at the base of the pyramid the economic duties, middle level is legal and ethical responsibilities, and at the top philanthropy.

2

2. Getting going: Five steps forward

2. Getting going: Five steps forward

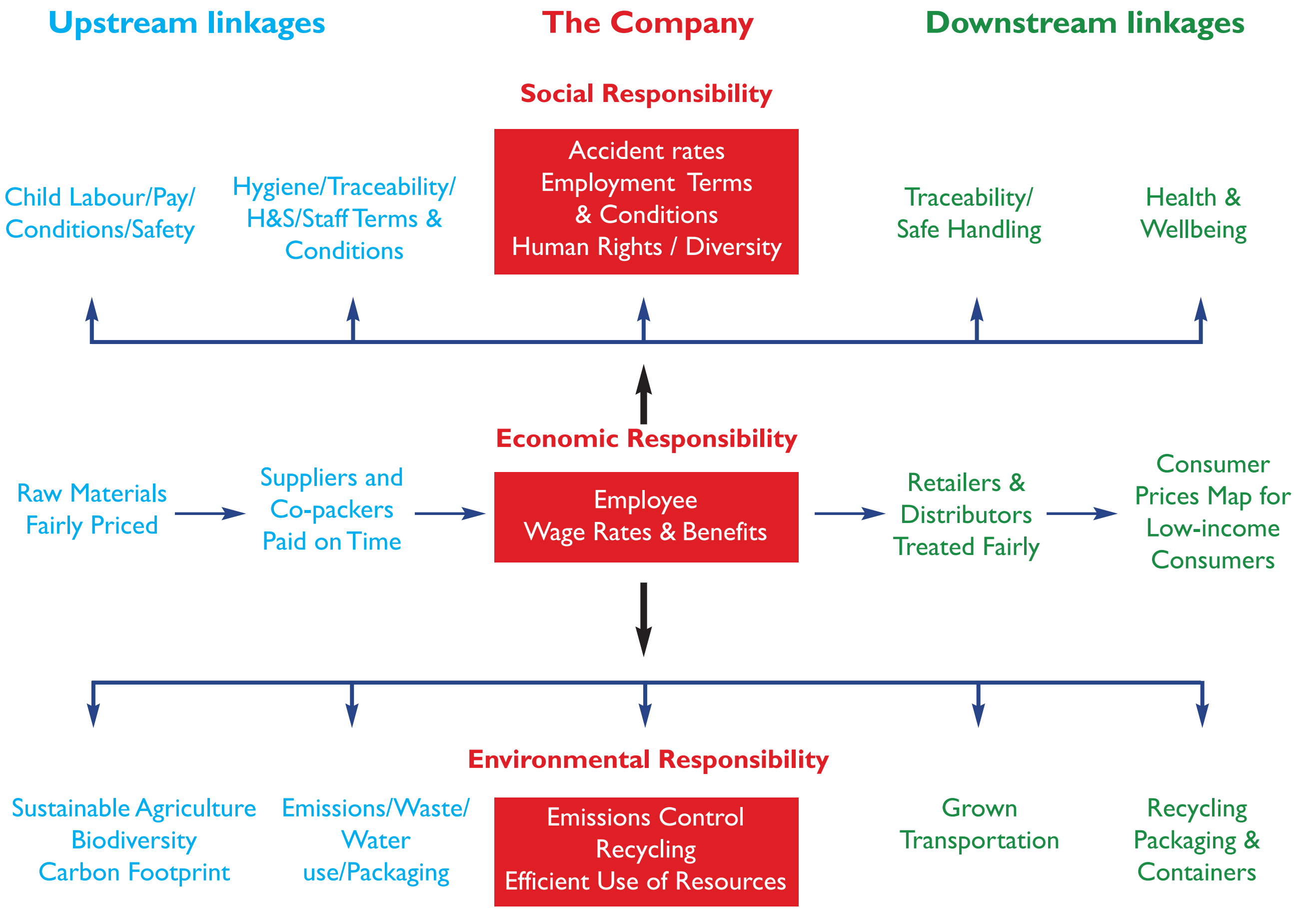
You can't manage what you don't know: measure your impacts

2.1 Self-assessment

The starting point to identifying impacts is to take stock of the company's own operations – within the company and through the management of its value chain. These need to be mapped and assessed in an SEE self-assessment exercise.[xxvi]

Start by mapping the company's main activities, for example using an input/output chart, to show the flow of activities through the business and its value chain. Keep it simple. Figure 3 shows an example of a flow chart for a food company mapping the SEE impacts.

Figure 3: Input/output chart



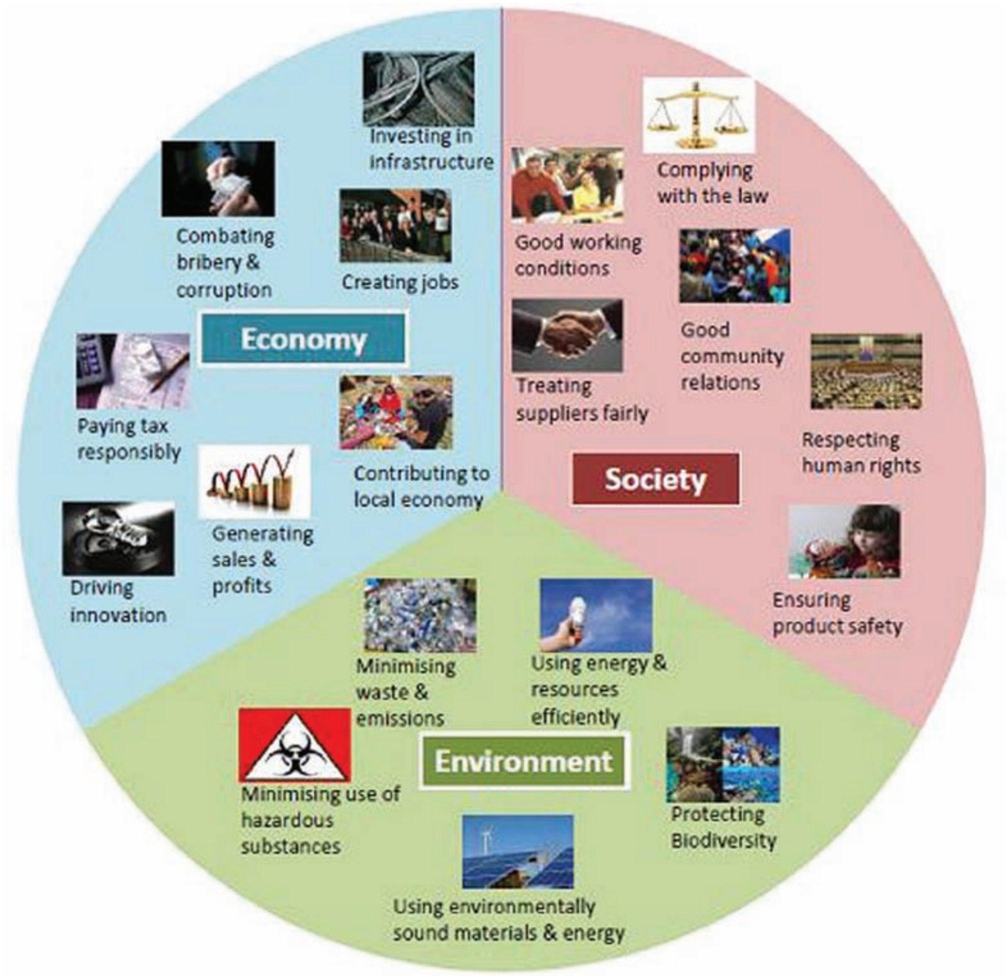
Note: Please see the Appendix for a pro forma of this chart that you can use

Note how the value chain model includes the 'downstream' relationships with distributors and consumers as well as the 'upstream' relationships in the supply chain[7]. Every industry structure will be different, and every company's value chain, unique. By creating your own map, even in this highly-simplified form, you can ensure that you capture the correct relationships and in a language that will be readily understood by your colleagues in-house. This will help you address some of the complexities of managing impacts as you progress.

[7] Upstream refers to the stages of a product/service lifecycle from the first supplier up to the company's doors. Downstream refers to all the stages of the lifecycle after the operational stage from customer to disposal.

Figure 4 below is taken from OECD guidelines for sustainability. It identifies a range of SEE impacts. Use it to prompt questions to colleagues responsible for each of the operations through your flow chart, to start to build up a picture of the SEE impacts of your company. An alternative reference document is the UK charity Business in the Community Corporate Responsibility Questionnaire.[xxvii] This is a more sophisticated approach, but useful for its comprehensive list of issues to be considered.

Figure 4: The range of SEE impacts [xxviii]



From a first review, you should end up with a self-assessment checklist of SEE impacts. An example of a self assessment checklist is shown in Table 3 opposite; a proforma form is included in the Appendix.

Table 3: Example self-assessment checklist to identify responsible business practice as first step to identifying a company's major impacts

Activity	Responsible department/manager	SEE impact
Leadership, values and strategy	CEO supported by Company Secretary/Legal	Governance; values (including ethics) and standards of management; strategic direction
Finance, including shareholder relations	Finance Director	Financial performance; return to shareholders; responsible tax payment
Purchasing	Purchasing/Supply Chain Manager	Treatment of suppliers (selection, contracts, including environmental performance, anti-bribery and legal compliance, payment terms); standards for outsourcing
Operations (1): employees	HR Manager	Employment practices/working conditions; pay rates; respect for employees (human and employment rights) including diversity; apprenticeships, training and life-long learning; communications
Operations (2): safety health and environment	SHE Manager	Health and safety; environmental performance (energy and resource efficiency, sustainable sourcing; emissions control; waste management)
Marketing and sales	Marketing/Sales Manager	Consumer safety; price/value of products/services; treatment of distributors; responsible brand communication and promotion
External relations	Corporate Affairs/PR/Government Relations Manager	Contribution to community; transparency of contribution to society, economy and environment; consistency of communications

Some companies have developed highly specialised self-assessment tool kits which are used at regular intervals and have become embedded in corporate management and reporting, for example, the SEAT Toolbox, developed by Anglo American. [xxix]

Having created a first map of the company's impacts, now is the time to talk to your colleagues responsible for each activity. Explain that you are creating a baseline of data on the company's impacts – social, economic and environmental. Ask them three questions as a way to initiate a more detailed conversation with them.

Three questions to ask a line manager: example of SEE impact questions

1. What data do they have that will demonstrate the company's performance in the areas of impact you have identified that come within their scope of responsibility?
2. How do they evaluate performance – this will frequently be to legal standards (e.g. environmental or health and safety regulations), industry norms (terms and conditions of employment, local prevailing wage norms) or other third party standard? If there is no obvious measure of performance, see if between you, you can identify a 'proxy' measure, e.g. respect for employees can be demonstrated by average length of service plus long service awards, supported by other employment good practice. In other cases, there may be no explicit management of the impact (for example, supply chain SEE standards) – if this is the situation please make a note of it for further consideration.
3. What is their insight into the key impacts of the company – specifically in their area and generally, good or bad, risks or opportunities? This can surface useful information, for example, maybe there is an emerging risk from an informal customer alert to prospective changes in SEE requirements they will require from suppliers in the future.

Ask them to nominate a CR champion from within their team to work with you on CR impacts (see Section 2.2 below).

Complete the interviews so that you have a first cut of all the self-assessment data from the managers. The data set will provide a first, overall, fact-based assessment of the company's direct impacts and those in its value chain – good and bad, risks and opportunities – based on the management information your colleagues use to run the business and which is internally relevant to them. This is an important reality check. Too often an isolated CR function will work to an external template in unfamiliar jargon, which is not understood internally, and for which managers have no accountability, rendering the quality of the data collected of minimal use. By starting the performance assessment based on information managers use in their day-to-day jobs, explaining to them the purpose and process of the project, and enlisting their support in the interpretation of that data, you have the best chance of getting them on board and so creating a robust platform from which to map and manage your impacts.

The interview process provides an invaluable opportunity to start to build a well-founded understanding of the issues involved in identifying and managing SEE impacts.

2.2 Get your act together 'inside': CR champions

The CR champion is the person you can go to in each function to ensure that your work stays closely connected to the business and to those who are responsible for running it. The CR champion acts as a two-way conduit who can inform your work by sharing with you both their and their department's perspective, and taking the learning from the impact assessment back into their own department. Create a 'Forum' (a group) to bring together the CR champions from across the business on a regular basis to help you build up an overview of the company's impacts. This will also help you validate and prioritise the impacts. For example, a shared awareness that a customer is planning to include a requirement for evidence of environmental and labour standards in all its future contracts, will give the departments who will need to fulfil these requirements, a head-start in getting prepared.

The tasks of the CR champions[xxx] are to:

- support you in completing the self-assessment of impacts to ensure that it is comprehensive, fact-based, and includes both positive and negative impacts
- act as a forum through which different departments' perspectives can be developed into an understanding of overall company impacts
- bring the department's views to the table, and the forum's view back to the department
- act as a forum through which to consider external information, trends and stakeholder interests, how these relate to the internal Self-Assessment, and what would be an appropriate response from the company
- act as a forum to develop the prioritisation of impacts and the action plans to address them.

The CR champions forum will be invaluable in keeping the identification of impacts grounded in the reality of business operations. Not all departments will end up with an active agenda once the priorities for action are agreed. Nevertheless the continuing participation of their CR champions will help to ensure that all aspects of the business are aware of, and understand the rationale for the priorities, the actions being taken and any supporting activities that may be required of them. Aim for 'no surprises' for managers or for you. Good CR champions will help to ensure that surprises do not happen.

2.3 Bring the 'outside' in

From the mapping of your company's impacts through the self-assessment exercise, and your first conversations with your different departmental colleagues, you will have created a first rough understanding of your company's impacts – **from the inside looking out** at society and the environment.

With this information in hand, you will now need to contextualise your findings by understanding your impacts as they are seen from **outside the company looking in**.

You will already have a list of impact areas identified in your Self-Assessment interviews and from your dialogue with your CR Champions. In addition, there are a number of sources of information to help you build up a picture from the outside:

2.3.1 Trade associations

Trade associations will frequently have guidance on minimum standards to be achieved in managing the SEE impacts typically found in your industry. Many will also participate in, or at least be aware of industry, and cross-industry, initiatives that are exploring ways of managing SEE impacts that are proving particularly difficult to deal with. They should also be able to point you in the direction of international bodies that are active in your industry area. Focus on asking how impacts are defined and measured, what performance targets are being set and how improvement is substantiated.

2.3.2 Industry leaders

The SEE agenda has seen some companies make outstanding efforts to address their SEE impacts. There is a lot of information in the public domain about their strategies, measurement models and achievements – steal with pride, especially relevant measures of performance. Of particular interest in looking at your own industry leaders are the specific impacts they have identified, and are addressing, and the specific measures they are using to manage their performance. Not all industries are well advanced, and it is important not to fall into the trap of thinking that just because your industry leaders have no substantiated SEE impact management strategies, your company does not need one either. Standards (for example, for environmental or employment practices in the supply chain, or consumer labelling) that have been successfully established in one industry can easily be demanded of another industry. NGO and media campaigns supported by activist shareholders and, subsequently, by regulators, take demands from one industry to another – if GAP, Nike and PUMA can demonstrate supply chain labour standards, why not Apple? Look for best practice in how standards are achieved and, if it is not to be found in your industry, look elsewhere.

2.3.3 CR associations and coalitions

There are a large number of business organisations, many of them membership-based, active in the field of promoting good SEE practice and exploring new areas of activity. [xxxi] Performance measurement is a constant preoccupation. Many publish a wide range of materials to help companies, show casing company good practice examples and sharing findings in emerging areas of inquiry. These organisations are also a good place to start seeing how other sections of society regard your industry and whether there are any major impacts lurking out of sight.

2.3.4 CR leaders

Look at the best – at the CR and sustainability reports of the companies that are acknowledged to be leaders in the field. It is important to note that for all the businesses that are regarded as leaders in the field of corporate responsibility, their leadership is based on the management of their SEE impacts **in their core business practice**. So the way they go about measuring and accounting for their performance can provide useful insights into how to approach similar challenges. Starting points to find leading practitioners are:

- International: SAM Dow Jones Sustainability Index[xxxii] – firstly, look at the sector leaders each year; as well as the other companies that have been included in the Index
- National: some countries have their own CR and sustainability organisations which work with leading performers: in the UK Business in the Community runs the CR Index and publishes an annual table of company performance; in Brazil, there is Instituto Ethos; in the USA, Business for Social Responsibility (BSR); and across Europe, the pan-European group CSREurope.

2.3.5 Business and industry critics

Once you have established a reasonable level of understanding of how your company looks to other business organisations, explore the views of your critics. NGOs (Non-Governmental Organisations such as Greenpeace, Oxfam and WWF), academics, journalists, 'civil society' organisations – from religious groups, to women's guilds and conservationists – may have well thought through views on the impact of business on the things that matter to them. Some will be hostile, others seek dialogue to find ways to improve the situations of concern. When starting out it is sufficient to map the organisations interested in the areas in which you operate, and be open to learning from their perspectives of what you do. Opportunities to engage with these groups will vary from company to company and are discussed at the appropriate stages in the following sections.

2.4 Capture good housekeeping

From the data you have gathered – from both inside and outside the company – it will be clear that you have identified positive and negative impacts. There will almost certainly be a third category where it is not clear what the company's impact is because you don't collect data that will tell you. This is a perfectly normal starting position.

Before focussing on those impacts where a change in the company's handling of them could make a significant difference, you need to complete your 'good housekeeping' and agree a baseline for performance measurement, benchmarking and reporting. Based on a simple mission statement and code of conduct (see call-out with an example code of conduct), a limited number of core measures relevant to your business will enable managers to track and demonstrate the company's performance on a baseline of SEE impacts – such as those given in Table 4 opposite.

Good housekeeping is an important step in building trust in the company and its credibility to exercise authority and influence in the SEE field. If a major impact of your company's operations is in the poor health and safety record of your suppliers, then your own house must be in order before you ask them to meet your requirements to improve their health and safety performance. Similarly, your credibility in requiring improved environmental performance will be heavily influenced by the environmental performance of your own operations. Wherever possible, identify an independent benchmark against which your company's performance can be evaluated, for example, industry or functional standards (health, safety and environmental statistics; minimum wage; salary quartiles; adherence to codes of practice).

In deciding on the measures you will use to underpin your good housekeeping, bear in mind that managing impacts is not just about 'doing less harm' (important though that is), it is also about maximising positive impacts and identifying growth opportunities – points that will be picked up again later in this guide. It will be important to be able to refer to upside benefits to be gained when management is making trade-offs between one course of action and another.

Example core elements of a code of conduct[xxxiii]

A code of conduct will need to address the following core operational issues (areas may need to be added or deleted depending on the industry, country[ies] of operation, and the values and standards of your own particular company):

- Compliance with all applicable laws and regulations of the country of operations
- Respect for human rights, no employee shall suffer harassment, physical or mental punishment, or other form of abuse
- Wages and working hours must, as a minimum, comply with all applicable minimum wage, overtime and maximum hour laws, rules and regulations
- No forced or compulsory labour, employees shall be free to leave employment after reasonable notice
- No use of child labour, and compliance with relevant International Labour Organisation (ILO) standards
- Respect for the rights of employees to freedom of association and recognition of employees rights to collective bargaining, where allowable by law
- Safe and healthy working conditions
- Environmental care in operations, and in compliance with all relevant legislation
- All products and services to be safe for their intended use, offer value for money in terms of price and quality, and be accurately and appropriately labelled, advertised and communicated
- Integrity in the conduct of business: no payments, services, gifts or other advantages to be offered, given or accepted. No actual or attempted money laundering.

Table 4: Self-assessment checklist: good housekeeping baseline performance measurement and reporting

Activity	Responsible department/ manager	SEE impact	Measurement	Benchmark
Leadership, values and strategy	CEO supported by Company Secretary/Legal	Governance; values (including ethics) and standards of management; strategic direction	• Governance structure published • Code of conduct published and performance breaches reported • Business priorities and plans published	• Corporate governance codes (see Singapore Stock Exchange, 'King Code' South Africa) • Competitor and leading CR practice
Finance, including shareholder relations	Finance Director	Financial performance; return to shareholders; responsible tax payment	• Total shareholder return over 5 plus years reported annually • Calculation of economic value added published • Tax policy published and confirmation of compliance annually	• Competitor and leading CR practice over extended time period e.g. 5, 7, 10 years
Purchasing	Purchasing/Supply Chain Manager	Treatment of suppliers (selection, contracts, including environmental performance, anti-bribery and legal compliance, payment terms); standards for outsourcing	• X% of suppliers and all outsourced production and services have contract and code covering SEE, and sign-off performance annually • Payment terms specified and company performance reported annually	• International standards and practice (e.g. ISO, Global Compact, GRI, SA 8000)
Operations (1): employees	HR Manager	Employment practices/working conditions; pay rates; respect for employees (human and employment rights) including diversity; apprenticeships, training and life-long learning; communications	• Confirmation pay rates, benefits and employment practices exceed minimums and are in line with peer good practice • Explicit policies and progress on performance reported annually inc diversity, training etc • Policy and performance reported annually on employee engagement and communications	• Legal minimum wage rates; industry norms and averages • Competitor and leading CR practice • Official diversity guidance/targets

Table 4: Self-assessment checklist: good housekeeping baseline performance measurement and reporting (continued)

Activity	Responsible department/ manager	SEE impact	Measurement	Benchmark
Operations (2): safety health and environment	Safety, Health and Environment Manager	Health and Safety; Environmental performance (energy and resource efficiency, sustainable sourcing; emissions control; waste management)	• Health and safety performance fully reported annually • Environmental performance fully reported annually, inc relevant operational performance e.g. resource use, energy efficiency, carbon emissions; waste management • Competitor and leading CR practice • Carbon Disclosure Project (CDP and other international standards)	• Industry and 'best-in-class' standards • Competitor and leading CR practice • Carbon Disclosure Project (CDP and other international standards)
Marketing and Sales	Marketing/Sales Manager	Consumer safety; price/value of products/services; treatment of distributors; responsible brand communication and promotion	• Consumer safety performance fully reported annually • Consumer careline information published and remedies taken • All breaches of advertising codes reported • Competitor and leading CR practice	• For consumer goods, price vs. Consumer Price Index • Competitor & leading CR practice • Number of breaches of advertising codes; product re-calls
External relations	Corporate Affairs/PR/ Government Relations Manager	Contribution to community; transparency of contribution to society, economy and environment; consistency of communications	• Community involvement reported annually • Report on SEE programmes published, including stakeholder engagement • Competitor and leading CR practice	• Competitor and leading CR practice • Local corporate lobbying codes

2.5 Communicate internally – and listen

From the information and data you have collected, prepare an account of your analysis of the company's SEE impacts and share it internally. Make sure your account – your story – is focused on what the business is actually doing (if you find in retrospect, you have ended up talking about corporate philanthropy and volunteering, or a minority holding in a social enterprise, go back to the beginning and start with your input/output flow chart again).

Make sure your account is clearly underpinned by facts (work to the maxim 'don't tell me, show me'). As Figure 5 illustrates, declining levels of trust in business have resulted in demands for increasing levels of transparency. Stakeholders' willingness to take statements based on trust has declined, though there is a willingness to accept explanation ('tell me'), and to demand proof ('show me') that a company's claims are substantiated by facts. In your account of your company's CR performance be explicit, explain and demonstrate your performance.

Focus on the objective that, at this stage at least, your task is not to re-invent the company, but to reveal it. Where data is poor (health and safety performance; number of fines, or customer complaints), check how it is reported in the company's annual report, and if it is not, arm yourself with examples of good reporting practice from other companies (CR associations can help you identify these) and agree with the responsible manager how the company's case is to be articulated and reported in the future. Start with small steps and build confidence.

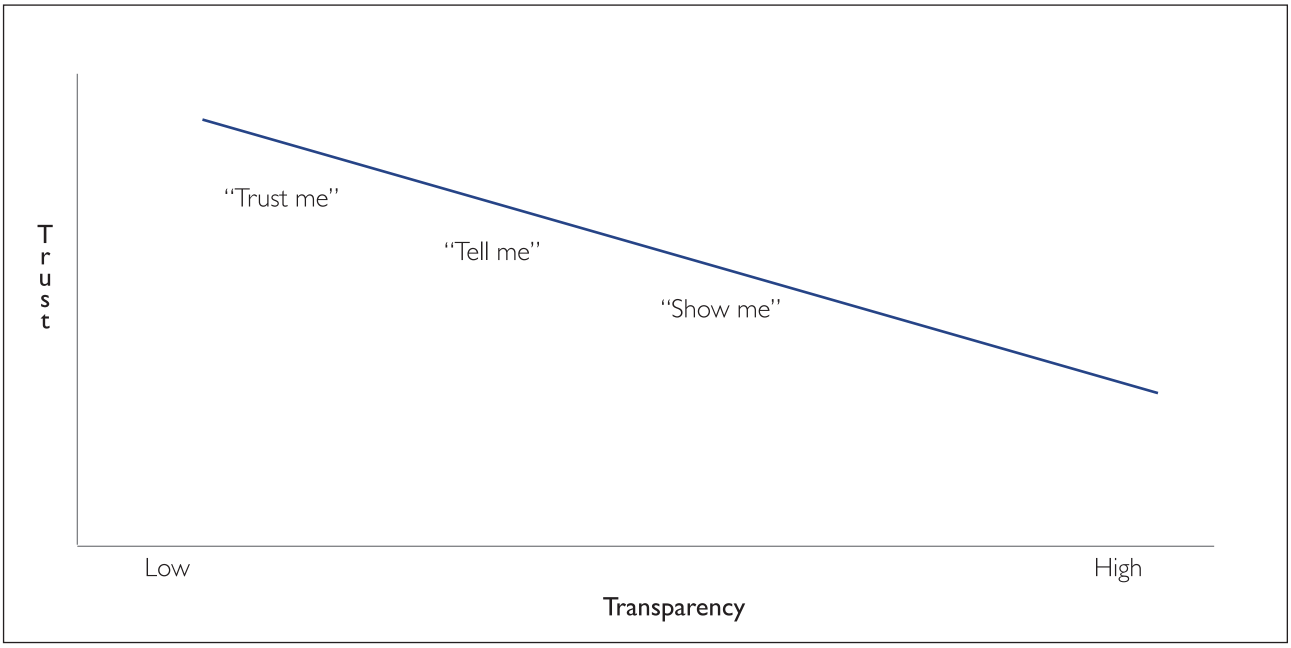
And don't forget the good data! Where there is solid – or outstanding performance – in training or work practices or environmental care, or product environmental profile, make sure this information is included clearly and factually (this is an informative story you are telling, not a sales brochure). Finally, highlight the areas where there is no information currently because the data isn't collected, and indicate if and how this is being addressed. [xxxiv]

Armed with your completed first account of how the company is managing its SEE impacts test the case that you make with the CR champions, interviewed managers, and a broad range of colleagues in different functions. And listen to their feedback.

- Do they recognise the company?
- Do they agree with the impacts you have identified?
- Are there others that you have omitted?

The company's employees are those who know the company and its operations best – they can therefore be both your fiercest critics and your most passionate ambassadors. Their feedback will tell you whether you have built a solid base from which to move to the next stage. [xxxv]

Figure 5: Trust me, tell me, show me: declining levels of trust in business communication



Note: developed by Shell after Brent Spar and adapted by David Grayson for Sustainable Business Elective teaching material for Cranfield School of Management MBA class 2011/12.

3. Upping your game: Five more steps

Engage stakeholders; prioritise your impacts; do a few things well

Having developed a well-founded understanding of your company's impacts the challenge is to prioritise those where you can make a material difference. Good housekeeping to general international, national and industry standards is your baseline (starting) performance; to 'up your game' (improve your standards) it will help to focus on doing a few things well. In the management of SEE impacts it is critical to consider and take into account the company's stakeholders' sustainability priorities in order to gain insight into the relative importance of different SEE impacts to the company and to wider society. Until you have these conversations with stakeholders, you don't know what you don't know. Establishing a productive relationship with your stakeholders in which you can learn from their positions, and they can understand the parameters for action for the company, is the key to a successful outcome to this interactive way of working. It also offers the potential for business growth and development in meeting the un-recognised or under-appreciated opportunities for new products, services or ways of operating.

3.1 Stakeholder awarenesss[xxxvi]

The starting point from which to identify a company's stakeholders is again the self-assessment checklist.

Table 5, column 4, lists example stakeholders with a direct interest in each core activity. The relationship between the stakeholders and the company is frequently, but not always driven by a shared economic interest, but will also include the company's social and environmental impacts as well. For example, for employees 'wage rates' and 'pay scales' will be a lead impact, but 'terms and conditions of employment', 'training', 'diversity' and 'promotion' will not be far behind. And for some, the 'environmental impact' of the company may be a major motivator/de-motivator of performance.

Table 5: Example self-assessment checklist showing each activity and department's corresponding stakeholders

Activity	Responsible department/manager	SEE impact	Stakeholder(s)
Leadership, values and strategy	CEO supported by Company Secretary/Legal	Governance; values (including ethics) and standards of management; strategic direction	All stakeholders including peer companies
Finance, including shareholder relations	Finance Director	Financial performance; return to shareholders; responsible tax payment	Shareholders, including socially responsible investors (SRI); providers of capital; rating agencies
Purchasing	Purchasing/Supply Chain Manager	Treatment of suppliers (selection, contracts, including environmental performance, anti-bribery and legal compliance, payment terms); standards for outsourcing	Outsourced service providers; co-packers; suppliers; raw materials producers
Operations (1): employees	HR Manager	Employment practices/ working conditions; pay rates; respect for employees (human and employment rights) including diversity; apprenticeships, training and life-long learning; communications	Employees: hourly paid staff; part time and contract workers; technical staff; professional staff; managerial staff; board directors; non-executive directors

Table 5: Example self-assessment checklist showing each activity and department's corresponding stakeholders (continued)

Activity	Responsible department/manager	SEE impact	Stakeholder(s)
Operations (2): safety health and environment	SHE Manager	Health and safety; environmental performance (energy and resource efficiency, sustainable sourcing; emissions control; waste management)	The environment (not a stakeholder in the sense of a group in society, but nevertheless impacted by the company's activities through raw materials or ecosystem services (see WRI Ecosystem Assessment). Use proxy of environmental experts, academics and NGOs
Marketing and sales	Marketing/Sales Manager	Consumer safety; price/value of products/services; treatment of distributors; responsible brand communication and promotion	Distributors; customers; clients; consumers
External relations	Corporate Affairs/PR/Government Relations Manager	Contribution to community; transparency of contribution to society, economy and environment; consistency of communications	Government; regulators; society; local communities – including NGOs, the media

When the idea of engaging with stakeholders is first raised within a company it is often greeted with dismay. Managers can envisage anti-capitalist protesters making outrageous, unjustified demands on the company, diverting managers from their real task of running the business. As the table indicates, most stakeholders do not fit this description and many are directly interested in the success of the business. The importance of including senior management colleagues in the **stakeholder awareness process** cannot be underestimated, both in terms of raising their awareness of how the company is viewed by others, but also in building understanding of the CR agenda and the insights it has to offer business development.

The first objective of stakeholder awareness is to invite the support of those with a direct interest in the company –usually economic – to help the company identify and manage its impacts, with a clear understanding that this is being done in the interests of the company, society and the environment – although not always in this order.

- Starting with the stakeholders closest to the company (those listed in the table) and with the active participation of the responsible managers, build up a picture of who your stakeholders are, what the company's relationship is with them, and what are the company's SEE impacts for them. In many cases, the responsible manager will already have some form of dialogue with the stakeholder. The dialogue may include formalised monitoring of the relationship in the form of contractual quality audits; 'Pulse' checks; customer and attitude surveys; consumer helpline monitors; reputation surveys, etc. Check whether SEE parameters are included in these questionnaires, and if not, drawing on the self-assessment data, work with the responsible manager to see how they can be covered in an appropriate and relevant way.
- Once you have prepared a baseline survey of what the company's SEE impacts are for its stakeholders, you will have a set of impacts, and issues of wider concern to society. For example, you may be focussed on the environmental impact of manufacturing your product, but consumer SEE concern may be more related to packaging, in-use energy consumption, or end-of-use disposal. Integrating the stakeholder's list of impacts and issues with the company's own assessment will likely result in a spread that will range from outliers as seen from inside the company, to outliers from an external perspective, with the majority shared between.
- The challenge now is to establish their relative importance and what the company can actually do about them. The following subsections will look in turn at some specific factors to take into account in this prioritisation process: the trends, risks and opportunities associated with impacts; their materiality and the possibility for action.

3.2 Trends, risks and opportunities

3.2.1 Trends

The list of SEE issues, almost by definition, embodies some 'slow-burn'[8] trends which will impact the company – positively or negatively – and which may or may not be within the range of traditional business strategy planning[xxxviii]. Figure 6 illustrates the key SEE trends for a worldwide transport and logistics company under four headings: global trends, industry trends, regulatory trends and CR competitive trends.

Figure 6: Example SEE trends for a transport and logistics company

GLOBAL TRENDS

- Carbon fuelled economic growth
- Demographic growth
- Increased environmental concerns
- IT

INDUSTRY TRENDS

- Liberalisation deregulation
- Environmental cost/congestion
- Customer/consumer changes
- Employment expectations

REGULATORY TRENDS

- Market opening
- Interventions in working conditions
- Environmental protection
- Security and integrity of operations

CR COMPETITIVE TRENDS

- Competitors all active on CR agenda; one claims to be CO_2 neutral
- CR practice transfers across sectors
- CR **leadership** based on core business practice

Each company will identify a different range of trends relevant to its own specific situation. For example, of particular importance to this global transport company could be the impact of a slowdown in economic growth which not only severely disrupts recent growth trends in the transport sector, but also undermines the ability and willingness of companies and governments (clients and regulators, respectively) to invest to decouple economic growth from fossil fuels, challenging the company's ability to meet its carbon reduction targets. Some trends will have a long lead time to address their consequences. For example, fleet replacement, engine re-design, and new urban delivery infrastructure will take decades to accomplish.

Don't underestimate the challenge that long-term trends, and SEE changes in operating context, can present to company leaders. Companies that have taken a highly responsible approach to sourcing, for example, can find themselves wrong-footed by new competition for their raw materials leading to unacceptable environmental, economic and social impacts. Purchasers of palm oil, for example, find themselves facing huge difficulties as increasing demand puts unacceptable pressures on vulnerable ecologies. Evolving expectations in societies around the world and pressures on the use of environmental resources mean these challenges are not going to go away and SEE strategies will need to be regularly reviewed.

It is essential that significant trend data is factored into the prioritisation of impacts.

[8] Trends that take time to emerge and grow.

3.2.2 Risks

The impact self-assessment process will probably have revealed strengths and weaknesses in the company's SEE performance. Some gaps may be in **actual performance** – for example there were several fatalities in your supply chain last year. Other gaps may be because of an **absence of data** – for example you simply don't know whether you have child labour in your supply chain because you have never asked the question. In either case there is a risk to your business, in terms of unacceptable, and potentially unacceptable, business practice. The information from your SEE self-assessment provides management and, in particular, the responsible managers, the space in which to take remedial action.

For risks, as for materiality (see Section 3.3 below), there will be challenges in ascertaining the level of risk an SEE impact represents and scoring methods should be trialled and adopted with the active participation of the responsible departments. Every effort should be made to work with the measurement tools used by in-house risk departments. This will have multiple benefits:

- It will raise the awareness of existing risk managers to the SEE agenda
- It will increase the ease with which SEE impacts can be accommodated within corporate risk analysis
- It will help you mainstream the SEE issues
- It will help you apply a disciplined approach to the prioritisation and management of SEE issues

3.2.3 Opportunities

From the self-assessment report you will be able to identify the upside opportunities that exist to develop and grow the positive impacts your company makes. All too often – particularly if the driver for action has come from a negative event such as an environmental fine, exclusion from a bid list, a critical campaign by an NGO or journalist – the reaction of the company can be defensive, focussed on managing down risk.

Identify from your self-assessment report all the positive impacts and then evaluate them as to materiality (see Section 3.3 below), compatibility with the major SEE trends you have identified for your business, and assess them for any risks they may represent. These impacts need to be understood in depth; they need to be nurtured and their performance and outcomes measured as significant indicators of your company's SEE commitment to society. They are your opportunity to demonstrate, tangibly, your business' role in society, the economy and the environment and the springboard for growing your company's positive contribution.

3.3 Materiality

Much has been written, and continues to be written, about how to assess the materiality of a company's impacts. In essence, materiality in the context of CR is: **a company SEE impact of sufficient significance that the company's sustainability profile would be misleading if it is not recognised.**[9] The impact could influence the company's and stakeholders' decisions if not recognised.

In the final analysis, it is the company's responsibility to identify and manage its impacts – but understanding where business perceptions of significance overlap with the sustainability concerns of stakeholders through, for example a materiality matrix, can make a useful contribution to the prioritisation process.

Figure 7 opposite, is an illustration of a materiality matrix taken from Cisco's 2010 CSR report in the form of a 'Materiality Assessment of Issues'. The vertical axis represents the importance of an issue to society and the horizontal axis the importance to Cisco. All the issues plotted on the graph are issues that Cisco, to a greater or lesser extent, impacts through its activities.

Cisco's matrix is a comprehensive overview of the issues that both the company and its stakeholders believe are important to the company's CR sustainability. In other words, Cisco can have a material impact in terms of how they are managed from the inside out (e.g. product solutions and services; digital divide), and it can be supportive of, but not directly materially affect, others (e.g. biodiversity, and concerns about water use). The impacts can be either negative or positive (see also Section 3.2 above).

The matrix assists Cisco to prioritise the issues it must manage, to identify and prioritise where to focus its efforts; and to explain the rationale behind the course of action it takes.

> *"A materiality assessment is a powerful tool to understand where business interests overlap with the sustainability priorities of a company's stakeholders."*
>
> *Eric Olson, SVP Advisory Services, BSR*[xl]

The scoring systems used in materiality matrices are also an area of continuing development. Judging materiality is relative and qualitative. The use of a table to describe different levels of impact and outcome can provide a disciplined framework for evaluating very different factors. In companies where risk management is a specialised management area, preferred approaches to scoring events – already understood and trusted by management – may be adapted for use in the SEE materiality matrix. For example, a scale that allocates values to the different levels of impact at a local, national or international level, and over different lengths of time, could be used to attribute values to different impacts. The results may then be integrated into broader corporate systems, for example (as discussed in Section 3.2 above), for risk management.

[9] Please see the 'AA1000 Guidance note on the principles of materiality' and 'Materiality in context of the GRI reporting framework' for further information.

Figure 7: Materiality assessment of issues: Cisco 2010 CSR report

Overall, care needs to be taken not to over-read the precision of materiality matrices (particularly in the early stages of SEE impact identification), but to use them as one source of helpful indicators of where to focus and what to demote. If the concept of materiality performs a useful role in impact identification it is as much about where not to put your efforts, as it is about what to prioritise.

3.4 Action plan

All the elements of your analysis should now be available for you to bring together in an action plan:

- Internal self-assessment of SEE impacts
- Account of good housekeeping
- Internal CR champions network
- Awareness of stakeholders
- External assessment of SEE issues
- Trend, risk and opportunity, and materiality evaluations

The objective of the action plan at this stage is threefold:

(i) to demonstrate company SEE performance

(ii) to detail how you plan to mitigate, or eliminate, the SEE risks that have been identified

(iii) to leverage positive SEE performance to make the most of what the company already does.

To work, the action plan must remain close to core operations and tackle the real challenges from those operations. Building on the report done for good housekeeping, you now need to distil out the two to three key impacts that are material and actionable. Table 6 provides some generic illustrations.

It is critical to be selective and to focus on material, actionable impacts. As the CR impacts programme progresses, it is possible to develop 'composite' action programmes as Marks & Spencer has done in its Plan A, or Interface in its Mission Zero. But as a start – think big, start small and act quickly.

"Think big, start small and act quickly"

Nihal Kaviratne, Former Chairman, Unilever Indonesia [xl]

It cannot be emphasised too strongly, the importance of setting out on the sustainability journey. Too often, companies are deterred from taking a first small step out of fear of the unknown, or a sense that the problems are so big that nothing that they do will make a difference. Nothing could be further from the truth. No one made a greater error than to do nothing, because they feared they could only do a little. The important thing is to get going. You don't need to go from nothing to Plan A in one leap. You just need to get started, and be open to let the next steps follow. From such humble beginnings, great achievements can be made.

Table 6: Example priority impacts that are material and actionable

Sector	Examples of impacts
Automobiles and parts	Carbon emissions; road safety; recycl-ability
Banks	Transparency; business ethics; remuneration
Basic resources	Environmental impact assessment (initial, during, and end of mine life); community relations; local sourcing
Chemicals	Environmental impact assessment; use of natural resources; waste and recycl-ability; biodiversity
Construction and materials	Carbon emissions; environmental profile and performance of construction materials; considerate construction
Financial services	Responsible investments; loans accessibility; loans and consumerism; transparency
Food and beverage	Sustainable sourcing; health and nutrition; packaging; water footprint; supplier labour practices
Healthcare	Ethics in research; price accessibility; biodiversity
Industrial goods and services	Carbon emissions; environmental footprint; employment practices
Insurance	Customer transparency; price fairness
Media	Privacy; conflict of interests; accountability
Oil and gas	Carbon emissions from product use; environmental impact assessment (initial, during and end of extraction); low carbon energy
Personal and household goods	Suppliers' labour practices; product safety and durability; recycling
Real estate	Price accessibility; land use; biodiversity
Retail	Fair-trade; waste; packaging; supplier SEE practices; sourcing
Technology	Product disposal; supplier SEE practices; low-income consumer access to technology
Telecommunication	Privacy; fair prices, access
Travel and leisure	Travel carbon footprint; employment practices; indigenous rights; biodiversity
Utilities	Sourcing of supply; low carbon opportunities; pricing; people living in fuel poverty

Note: sector grouping done according to the 2011/2012 SAM Supersector Leaders www.sustainability-index.com/07_htmle/indexes/djsiworld_supersectorleaders_11.html

It is important to recognise that some of the key impacts identified may not be easily actionable.

- In the late 1990's BP's then CEO, John Browne, made a memorable commitment to go 'beyond petroleum'. He laid out a strategy which included a range of activities, including investment in renewable energy sources. There was wide acclaim when the company met its targets, ahead of schedule. But the programme stalled. Among other problems, the aspirations were ahead of what it was possible for the company to deliver. The very challenge of moving 'beyond petroleum' may actually be impossible for a petroleum company ever to achieve because of its particular invested structures and skills. These are the harsh realities, in terms of the trade-offs and dilemmas, that the SEE impact assessment process reveals.
- A transport services company may commit to lower its carbon emissions, but the technology that will enable it to make a step change in performance, is in the hands of the truck manufacturers and may be years away from the market.
- For a construction company, the lowering of the environmental impact of cement usage may lie in extending construction times, but this would be against the demands of competitive contracts. Although even here, scoping impacts can stimulate innovation: Van Nieuwpoort Group – a 107 year old Dutch family business launched cement-free concrete in 2012.

The more benign a company's products and services are, the easier it is to identify actionable impacts. Where this is not the case, a realistic impact assessment process will enable a company to develop a well-founded understanding of its position and to take what steps of mitigation it can.

When finalising your action plan go back to your input/output flow chart and check that what you are proposing relates to and is derived from your assessment of the key impacts along the value chain, validated by the subsequent analysis. Wherever possible show your workings – how you arrived at the conclusions and recommendations you are making. Start with small steps which demonstrate how you are going to achieve measurable change. With the active participation of those responsible for implementation, set realistic targets and timetables, with early measurable achievements. It is essential that accountability for delivery of the action plan is firmly in the hands of line management, not the CR manager. And as your colleagues gain confidence in managing the SEE aspects of operations, there will be every opportunity to raise your game.

3.5 Communicate internally and externally – and listen

You are now ready to start to share the story of your company's SEE impacts and your approach to managing them.

- Update your colleagues internally and prepare to communicate externally.
- It is very easy to overlook how much jargon is used in every day communication inside a company – it's an efficient and effective way of working, but for an outsider it can be incomprehensible, alien and off-putting. Step back and write a straightforward story of the journey the company has been on to understand its impacts. Treat the communication as a conversation in accessible, jargon-free language.
- Performance data needs to be contextualised and wherever possible, measurable. And, although there is merit in having performance data available for the full range of the company's operations, do not fall into the trap of producing an exhaustive list of data. Information is powerful when it tells a story. So leave the data lists as a resource on the company website and focus on the key elements that will give audiences a well-founded, balanced understanding of the company and its impacts.
- When you are ready, a formal CR report can be a useful tool in which to distil your analysis and communicate your company's performance. The very process of producing such a report can be highly beneficial in consolidating your company's position at a particular moment in time.
- Considerable effort has gone into developing standardised reporting methodologies and measures, most with the objective of assisting external stakeholders to compare different companies' performance. While this is a laudable objective, it can have the opposite effect from the one intended as companies produce volumes of data in their attempt to meet exacting requirements and force fit their own particular operations into a standardised model. Companies are diverse organisations and it is not easy to reduce them to directly comparable descriptors. So when starting out on the external communication of SEE impacts and CR performance, stick to the measures and information you and your managers understand and which is relevant to your analysis of your impacts. Consult other company's CR report formats to see the different approaches taken. Look at several, inside and outside your sector. You will appreciate the range of formats and styles – and see for yourself how helpful and informative some are, and others not. Look at the guidance on reporting provided by third party organisations such as the Global Compact, the Global Reporting Initiative, SA8000, and the relevant guidance from the International Organisation for Standardisation (ISO) in particular ISO 26000 and the 14000 series.

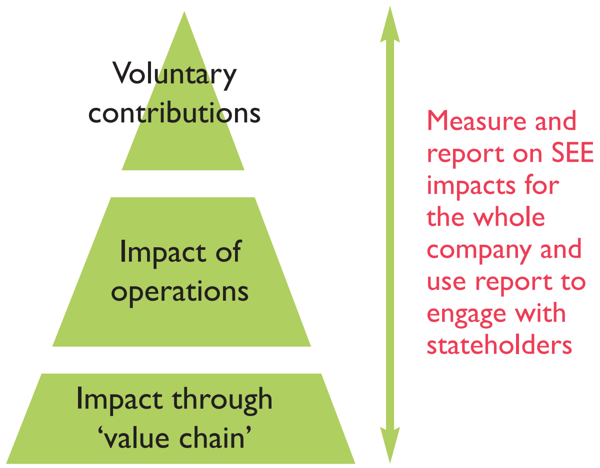
Do not be surprised if your first report is modest, it takes time to build up the baseline data against which performance and progress can be reported. It will be critical however, that no matter how slim the report is, it is signed off by the Executive Board member responsible for CR, to signify the company leadership's commitment to the report.

Make sure you set your performance in context – imagine your reader is an intelligent layperson and include a contextualising description of your industry as well as an overview of your company. A well designed flow chart can also be helpful in setting the context for your priorities and programmes (Section 4.4 gives an example of the development of one company's reporting over ten years).

And when you publish, don't sit back and think 'job done', make your report part of your overall communications programme and listen to the feedback you receive. Companies have developed a reputation over decades of indulging in broadcast, one way communications. Today, audiences are un-impressed by such one-way communications. All too often feedback has a tendency to disappear. Use your report as the impetus for a two way conversation.[xli] Capture the opinions you, and your colleagues hear from your different stakeholder groups. Does it validate or criticise your actions? Are these comments well-founded or ill-informed? Your company is responsible for the information it shares, so if there is misinformation about its operations, it is for the company to set the record straight. Listen to see if your stakeholders are offering new insights and opportunities, requesting more information and answers, or identifying new risks.

Figure 8: The CR Impact Model: reporting and engaging with stakeholders (developed by D Logan[xxiii])

The Corporate Responsibility Impact Model – reporting and engaging with stakeholders



The use of social media like blogs simplifies this job by offering a 'real time' communication with the public.[xlii] This can have positive or negative effects if the dialogue is not taken seriously (see Section 5.5 for further information). Your – and your colleagues' – ability to develop interactive relationships with the company's stakeholders will be essential to raising your game in the future.

The Tata Consultancy Sustainability Report "addresses the key sustainability topics gleaned through interactions with the different stakeholder groups, based on the core principles of materiality and stakeholder inclusiveness. These topics cover the full range of material economic, environmental and social impacts of the organisation."

Tata Consultancy Services, Corporate Sustainability Report 2009-10

4. Getting up with the best: Five challenges

Learn from your progress, accept the contribution of others – set targets for your impacts

To review progress this far, at this point you should be in reasonable shape.

- You have built with your colleagues a fact-based assessment of the company's impacts on society and the environment.
- You have contextualised this assessment by finding out the views of internal and external stakeholders and considering the risks and opportunities, and the materiality, of your impacts.
- You have drawn up a first action plan aimed at demonstrating company SEE performance, addressing risks and leveraging opportunities.

To have got this far is a real achievement. To articulate and share this information openly has proven beyond the ability of many who claim to be advocates of CR. The challenge now is to go further and to really embed CR into core business strategy and practice so that managing the company's major impacts becomes an automatic part of how your company operates.

This chapter explores some of the tools and techniques you can use to raise your game, the potential for interactive stakeholder engagement to provide new insights and opportunities, and the scenario planning that can open up whole new ways of thinking. As company performance data becomes available, and understanding of the agenda grows, so too will management defensiveness diminish and confidence grow. By aligning and embedding the insights gained from SEE impact management into business strategy and planning, a realistic but ambitious SEE vision and targets can become an integral part of mainstream business strategy – and the potential for business development realised. With their new-found confidence, managers will be able to communicate, listen and lead.

4.1 SEE tools and techniques

As an evolving field of business practice, CR is developing its own range of tools and techniques. In such a dynamic environment, however, it is not possible to list all developments – but what is important to understand are the key concepts and the approaches being tested. The following examples illustrate just some of the tools for measuring and evaluating social, economic and environmental impacts.

4.1.1 Job multiplier (social impact)

A key aspect of a company's impact on society, over and above the impact of its products or services, is the number and quality of jobs its activities generate. Although 'Job Multiplier Analysis' in a company's supply chain is reasonably familiar territory for traditional industry analysts, analysis along a company's entire value chain can yield some surprising results.

Figure 9 (overleaf) is one example. The analysis came out of a joint NGO (Oxfam) and corporate (Unilever) project to explore the links between international business and poverty reduction, using Unilever Indonesia (UI) as a case study.

The figure shows the estimated employment linked to UI's value chain, revealing that over half (55%) of the estimated 300,000+ full time jobs in UI's value chain were not in the supply chain, but 'downstream' in retail operations.

Participants at either end of the value chain (over 80% of the overall total) are predominantly small scale producers and retailers. For them, UI's value chain provides, possibly, a first opportunity to participate in the formal economy and gain marketable skills and experience. These will, in general, be regarded as positive social impacts, but they may not, for example be enough to lift people out of poverty. So in looking at what can be done to enhance the positive social impacts to the benefit of the company, the individuals and wider society, the company could add value by ensuring optimum payment terms and cycles (predictable income is more valuable than ad hoc payments), and increasing training opportunities. The government or other actors could add value through the provision of educational schemes (for the small scale producers, retailers and their families) and raising awareness of credit, savings and insurance facilities for them and their businesses.

4.1.2 Value added (economic impact)

The same research from the UI case study also provided data from which to estimate the distribution of value generated along UI's entire value chain. This is summarised in Figure 10 (overleaf); the total value generated was estimated at US$633 million. Of this, UI operations generate 60% of the value added, of which 40% (26% of the value chain total) went straight to government in payment of direct taxes. 40% of the total value from UI activities is in the value chain, generated by small scale producers and retailers.

Figure 9: Estimated employment linked to value chain, analysis from Oxfam and Unilever[xliii]

% of total employment linked to UI's value chain	Value-chain activity	Estimated jobs (FTEs)	% breakdown by category	
27.1	Raw-material sourcing	81,515	Cassava Palm oil Tea Coconut sugar Black soybeans	44 27 12 10 7
8	Manufactured goods & other suppliers	24,000	Direct suppliers Indirect suppliers	33 67
2.4	UI operations	7,069	Direct & temporary employees Contract workers 3rd-party producers[a]	46 28 26
7.3	UI distribution operations	21,860	UI distributors UI sub-distributors Sales promotion teams Ice-cream hawkers	48 18 13 21
55.2	Retail operations	166,320	UI-supplied shops UI-supplied *warungs*	1 99
Estimated number of jobs (FTEs[b])		300,764		

Notes: This chart is an initial analysis of local research and data. It is the best estimate at this time. Further work is necessary to categorise more precisely and allocate more accurately the precise job-multiplier impacts along the value chain.
a Excluding advertisers; b FTE= full-time equivalent

Figure 10: Distribution of value along the value chain, analysis from Oxfam and Unilever[xliv]

% of total value generated	Value-chain activity	Rp billion	US$ million	% breakdown by category	
4[b]	Raw-material sourcing	232	27	Local raw materials Improved materials	62 38
12	Manufactured goods & other suppliers	638	74	Direct suppliers Indirect suppliers Advertising suppliers	54 25 21
34	UI operations	1,817	212	UI operating costs UI employees UI Indonesian shareholders	69 26 5
26	Taxes paid by UI	1,457	170	UI taxes[c]	100
6	UI distribution operations	332	39	UI distributors UI sub-distributors	93 7
18	Retail operations	955	111	UI shops and *warungs* Non-UI *warungs*	80 20
Estimated total value generated		5,431	633		

Notes:
a Gross margins are defined as total sales revenues minus the cost of goods sold. By using estimates of the 'gross' margins for each participant in UI's value chain, this figures attemps to show how value is created and whee it is captured along the entire chain for UI's products. The proxy we have used for gross margins for UI is profit before tax (US$ 212 million). (An alternative proxy could be Operating Income ($204 million), but that does not include interest income or foreigh-exchange earnings.) Ten per cent is used as a proxy to calculate gross margins for raw-materials suppliers, direct suppliers, and retailers. While the research for this report suggested that the gross margins for these value-chain participants vary between 5 and 16 per cent, 10 per cent appears to be representative for each. These calculations are estimates. Further work is necessary to categorise and allocate more accurately the precise value added along the value chain.
b As primarily a home-care and personal-care company, only a small proportion of UI's product range uses agricultural raw materials.
c Excludes sales taxes.

Participation in UI's value chain by people living in or on the edge of poverty provides them with an opportunity to supplement and diversify their incomes. The predictability of this income stream will enable them to make plans, for example, to build a house, or educate children – which an erratic income stream does not allow. The positive economic impact can be enhanced by the company, government and wider community with the encouragement of the provision of other economic facilities, for example, credit, savings, loans and insurance schemes and business development supports such as technical, IT and marketing associations.

The role of a major branded goods company as an engine for value creation is clear, what the analysis of the value chain shows are the less well known and rarely quantified value generation impacts (including tax payments) in the wider economy. Here, there is scope for optimising and increasing the value generation of participants, to the mutual benefit of the company (more consumers for its products) and the economy (more taxpayers).

4.1.3 Lifecycle analysis (environmental impact)

Lifecycle analysis (LCA) provides a useful framework for identifying gross and directional impacts. Guidance is provided by the International Organisation for Standardisation (ISO) – such as ISO 14040 (2006) and 14044 (2006)[xlv] – and by other organisations such as The Natural Step (TNS). Forum for the Future (a non-profit organisation working globally with business and government to create a sustainable future) has worked with TNS to develop a 'streamlined' LCA tool, based on the TNS system conditions for sustainability set against the lifecycle stages of a product.[xlvi] The tool has been tested by ICI and Pret a Manger, with positive results.

Companies that are successfully using LCAs have tended to develop them by:

- adopting the conceptual framework of LCA
- accepting that, in general, the 80:20 rule will apply (i.e. 80% of the impacts will come from 20% of inputs)
- if they can establish the overall directional trend of impacts, they can refine the analysis over time.[10]

LCA has become an internationally accepted approach for calculating sustainability (particularly environmental) impacts. It is being adopted and tailored by different industries and companies to meet their specific needs. For example, in the UK, the Building Research Establishment (BRE), working with the UK materials industry, has established a standard method for calculating the impacts of a selection of building materials and components and maintains a database of environmental profiles of UK construction materials. This kind of development of LCA models, based on generally accepted industry standards and measures, is likely to perform an increasingly useful role in helping companies to drive down their environmental impacts.[11]

Patagonia: all organic cotton[xlviii]

Patagonia subjects all its products and processes to LCAs, and, unlike some companies, it'll make big changes if the LCA throws up bad news. In 1996, it switched to organic cotton after LCAs of all the fabrics it uses - including many synthetics - showed that cotton left the greatest environmental damage of them all in its wake. With global production accounting for about one-quarter of the world's pesticide consumption, as well as using vast quantities of irrigation, normal cotton is far from natural.

"When we discovered how bad cotton production was," says Yvon Chouinard Founder and CEO, "our board of directors said 'That's it. We're just going to go out of business.'" We didn't want to end up being martyrs. Every other company that had tried it, had given up after a while. Instead we mobilised the company and talked about how we were going to market organic cotton."

The decision to make a complete switch to organic cotton was typical of Chouinard. Rumour has it that Patagonia's first organic year brought with it 25% rises in production costs and a 20% drop in cotton clothing sales. The company is coy about releasing 'proprietary' data and it won't say how much cotton clothing it sells or what its profits are. But it admits that when it introduced organic cotton it dropped its margins, raised prices and "*asked customers to meet us in the middle*".

Somehow it worked. Not only is Patagonia still profitable, but the media kudos has been breathtaking. Ever since the switch, Patagonia has been organising tours in California's cotton-growing Central Valley to point out the horrors of the conventionally-grown crop. Companies such as Nike, Levi Strauss and Adidas have taken Chouinard up on his offer to discover what it does to the environment. Several, including Nike, have responded by buying organic cotton and mixing it with their conventional supplies. Others, such as Canada's largest outdoor goods company, Mountain Equipment Co-op, now sell 100% organic cotton T-shirts."[xlix]

[10] Unilever sells 26,000 SKUs across 190 countries. The baseline LCA work for the Unilever Sustainable Living Plan was done on "only" 1400 representative SKUs. It turned out that this sample covered >70% of Unilever revenues.

[11] Another approach which is gathering momentum among businesses is Cradle-to-Cradle, developed by MBDC and implemented by companies like Volvo and BASF. See McDonough, W, and Braungart, M 2002, 'Cradle To Cradle : Remaking The Way We Make Things', New York: North Point Press or visit http://www.mbdc.com/

4.1.4 Valuing natural capital

Considerable work has been done to try and put a monetary value to the environmental resources a business uses. In May 2011, PUMA, the sporting lifestyle goods company, published an economic valuation of the environmental impacts caused by GHG emissions and water consumption in its upstream value chain and own operations. PUMA's plan is to start with two major environmental impacts (GHG emissions and water consumption), then proceed to include further environmental key performance indicators, and then to follow up with social and economic impacts at a later stage.

PUMA chose GHG emissions and water for the first analysis in their Environmental P&L (EP&L) as they were considered to be the most significant environmental impacts. The economic valuation of these impacts by consultancies PwC (GHG emissions) and Trucost (water use) estimated a value per tonne of CO2e at €66 and an average water value of €0.81/m^3. In November 2011 the total cost of €94 million was updated to €145 million to include the impacts on land resources – a staggering figure when compared to Puma's net earnings for 2010 at €202.2 million. [l]

By identifying the most significant environmental impacts, PUMA has committed to developing solutions to address these issues, consequently minimizing both business risks and environmental effects. PUMA's EP&L statement is designed to provide a detailed level of understanding of supply chain and operational impacts; to set a new benchmark in corporate environmental reporting; and to serve as a catalyst for others to join an industry-wide engagement process. [li]

While PUMA's EP&L so far gives new impetus to environmental accounting, it does not address issues downstream – that is to say, consumer-use impacts – and as such the E P&L only gives part of the story.

4.1.5 Other techniques for raising your game

Building on the basics

Some of the most socially aware and adept businesses today are found in the consumer goods and retail industries. Competition for 'share of wallet[12]' and the opportunities presented by new consumers – whether entering markets for the first time with disposable income at the bottom of the pyramid, or niche, socially-aware consumer groups with higher disposable income – are making leading companies explore how best they can meet their needs.

- Grameen Bank's microfinance, particularly its lending to women, has revolutionised low-income peoples' ability to create remunerative work for themselves.
- Unilever's Lifebuoy soap runs hygiene education programmes in India and other parts of the world, and has, since 2010, reached 48 million people with its programmes, with a target of 1 billion by 2015. [lii]

Figure 11: PUMA's 2010 EP&L

2010	Non-financial performance	Economic value € million	Economic value %
PUMA Operations:			
Greenhouse Gases (ktCO$_2$e)	110.1	7.2	7.6%
Water ('000 m^3)	108.8	0.1	0.1%
Tier 1 suppliers			
Greenhouse Gases (ktCO$_2$e)	131.4	8.6	9.1%
Water ('000 m^3)	5,319.8	0.8	0.8%
Tier 2 - 4 suppliers			
Greenhouse Gases (ktCO$_2$e)	476.0	31.2	33.1%
Water ('000 m^3)	72,064.5	46.5	49.3%
Total:			
Greenhouse Gases (ktCO$_2$e)	**717.5**	**47.0**	**49.8%**
Water ('000 m^3)	**77,493.1**	**47.4**	**50.2%**
Total economic value		**94.4**	**100%**

[12] Share of the customers income.

- Vodaphone's sales of mobile telephones in developing economies have empowered all kinds of suppliers, producers and traders with direct access to market information.
- Pret a Manger sells more than 30 million sandwiches and baguettes a year, and donates (among other things) 2.4 million products a year to a variety of homeless charities, reducing their waste. The company has identified the opportunity its sandwich shops offer to create employment. It has developed an in-house apprenticeship scheme targeting homeless people and former offenders, which offers a work placement for three months, with a commitment to find long-term employment at the end.

All of these companies are using their core operations – banking, hygiene products, mobile communications and fresh food service – to increase their positive contribution to society at the same time as developing their businesses.

Working with others

The CR agenda has seen an extraordinary level of co-operation within and between industries as companies have sought ways to tackle a broad range of corporate impacts. From the Washright Campaign in Europe (responsible consumer washing practices), to the Extractive Industries Transparency Initiative (international standards for accountability for resource revenues), to the Equator Principles (responsible project finance in developing economies) and the Ethical Trading Initiative (responsible sourcing of agricultural produce), industries have come together to set standards and raise the bar for whole sectors. Pursuing an industry-wide campaign can achieve scale beyond anything an individual company can do, but care must be taken to agree with competition authorities that joint actions cannot be misconstrued as anti-competitive practice.

In addition, companies are working with partners beyond the corporate world. The UN-initiated Global Compact works with companies and a wide range of UN agencies to support work towards achieving the Millennium Development Goals (agreed by all the world's countries, the 8 goals range from halving extreme poverty to halting the spread of HIV/AIDS, to providing universal primary education). In each of the goals there is a role for companies, through their core business practice, to contribute to their success.

International companies are also looking to raise their game, by exploring how they can meet expectations for high standards in corporate behaviour, for example by implementing the applicable requirements of The Universal Declaration of Human Rights. Businesses such as ABB, GAP Inc, HP, Novo Nordisk and Statoil have worked together to identify practical ways to implement the Declaration of Human Rights in a business context.

Transforming business models

Some companies and business leaders have walked the sustainability path and realised that nothing short of transforming their business model will meet their SEE impact management aspirations.

- One of the earliest to adopt a revolutionary approach was Ray Anderson, Founder of Interfaceflor, a contract carpeting company. Recognising that the fossil-fuel based product he was selling was, by its very nature, unsustainable, the late Ray Anderson set out to achieve 'Mission Zero'. Today, Interfaceflor's dedication to sustainability has evolved into the company's 'Mission Zero' commitment: *"Our promise to eliminate any negative impact Interface has on the environment by 2020"* [liii] (it is worth reading the full Mission behind this brief statement to understand its full SEE implications. See also Section 5.5 'Game Changers' below.)

This whole-company, transformational approach can be seen in the mission of other companies like RiverSimple, a highly efficient transport company based on car leasing focussed on eliminating the environmental impact of personal transport, and Kingfisher's B&Q, a retailer which is exploring moving from 'selling' to 'renting' its range of DIY products. [liv]

4.2 Engage stakeholders: an interactive relationship[13]

In Section 3.1 we took a first look at understanding stakeholder perceptions of corporate impacts, and the importance of raising in-house awareness of the value of these insights. Companies at the leading edge of CR regularly engage with their stakeholders on SEE issues (all managers and all stakeholders as it is part of the corporate conversation). This engagement comes in a variety of forms , as detailed below.

4.2.1 Interactive open dialogue

A round table discussion either with one group of stakeholders (e.g. consumers) or a mixed group of different stakeholders (e.g. NGOs as well as industry opinion formers). Discussion is prompted by the issues identified in the self-assessment exercise and from consumer helpline reports and elsewhere (see Section 3 above) to facilitate a conversation around the SEE impacts of the company. The role of the CR manager is not to justify or defend, but to listen and understand their perspectives.

Once you have established a reasonable level of exchange of ideas, it is possible to develop the dialogue to explore new frontiers to the issue(s) and potential ways for the company to address their concerns and interests and to measure and benchmark performance. Respected as a valuable learning opportunity for management, when done correctly stakeholder dialogues can be a mutually rewarding exercise.

4.2.2 Interactive expert dialogue

These are conversations with a group of experts in SEE in your field, with the same rules of engagement as before. They will enable you to hear first-hand the fundamental issues as perceived by those with a greater breadth of knowledge and expertise, and different perspective on the company's individual areas of impact. Experts are difficult to convene for a group discussion unless you are a major industry player and you may need to rely, in the first instance, on industry conferences and wider business CR gatherings to hear their views.

[13] A complete overview of the topic is offered by 'Stakeholder Engagement: A Road Map to Meaningful Engagement' Guide #2 in our 'How to' series.

Dialogues may well include NGOs whose campaigning work can build up an unrivalled body of knowledge of the issues at stake and public attitudes towards them. Great care needs to be given to understanding expectations as deep analysis does not always represent deep understanding of the practicalities of remediation. NGOs have an enormous amount to offer, are key actors in the drive to understand and manage corporate impacts and should be respected partners in the search for sustainable solutions.

Neither of these dialogues should be undertaken unless the company is committed to acting on the outcomes. Of course, this does not mean that you will agree action plans immediately. But what it does mean is that you will be respectful of the time and engagement of these stakeholders and are prepared to listen, learn and feed-back your learning from the dialogue. This may not always be easy. Where issues are intractable with either 'no', or 'very costly solutions', explaining your rationale and remaining open to dialogue may be all you will be able to offer.

4.2.3 Partnerships

Where dialogue prospers, and mutual interests are established, the opportunity arises to develop a partnership with stakeholders. Stakeholder partnerships have proven highly successful in addressing a wide range of corporate social and environmental impacts, pioneering new methodologies and metrics and raising the bar for whole industries. For example, both the Marine Stewardship and Forestry Stewardship Councils have played important standard-setting roles in their respective fields.

As with any partnership, a clear-sighted recognition of the strengths and weaknesses of each party, and what they can bring to the partnership, is essential. Too often, companies expect NGO partners to be as well-resourced as they are (which is rarely the case), and NGOs expect companies to adopt their campaigning techniques (which is rarely appropriate). Expectations need to be realistic on both sides, on what each brings to the partnership, and what each can deliver. The more specific the project undertaken, and the clearer the deliverables, the greater the chance of success. Overall, a stakeholder partnership project needs to be managed as professionally as any other aspect of the business.

4.3 Develop scenarios and horizon scan

With the influx of new information and insights to the company, and new perspectives on its actions, there is a need to find a way to consider and internalise the responses to the questions they throw up. The world in which you operate will not be standing still and scanning the horizon for change – whether in your markets, competitors, regulation or technology, will add to your information base.

Once the immediate issues in current operations have been tackled (i.e. measurements put in place to monitor social and environmental standards and impacts), scenario-planning offers managers a way to develop shared understanding, buy-in, and ownership of forward commitments.

"Scenario planning is an excellent way to handle the complex, ill-structured issues with which complex organisations have to grapple."

Oliver Sparrow, The Challenge Network[lvi]

The leading scenario practitioner and futurist, Oliver Sparrow of the Challenge Forum, has set out five key steps in scenario generation (see below). For those unfamiliar with formalised scenario generation, the Challenge Forum website gives a clear and succinct introduction to the concepts, techniques and process involved.

Scenario Generation
5 key steps

First, seek breadth, and then focus
Second, identify the system boxes
Third, calibrate the key variables
Fourth, identify the key dimensions and populate the space
Fifth, create a narrative thread

Oliver Sparrow, the Challenge Forum www.chforum.org

Scenario generation is an iterative, analytical process that leads to the development of several scenarios that can then form the basis of workshops at all levels of the organisation, and inside and outside the company to test case material, its articulation and importance. To be successful, scenario work needs to:

- be clear in its legitimacy (under whose authority it is being done) and its relationship to formal company processes
- have agreed goals
- adopt a time horizon that mirrors company and or industry planning horizons.

When done with 'solid, cross-referenced analysis' scenario planning provides an enabling framework through which to develop the language necessary for articulating and discussing complex concepts, and facilitates the comparison of views between different parts of the company and between the company and its stakeholders. By keeping the steps of scenario development clear, it is possible to trace lines of analysis backwards and forwards. By showing your workings in this way, any gap, illogicality, or misunderstanding can be traced back to its roots and addressed. The fifth of Sparrow's key steps 'creating a narrative thread' – from the present to the scenario – ensures the scenario case material is rooted in today's reality and the arguments are 'stacked up' in a robust and compelling way.

4.4 Embed in business strategy: stretch vision and targets

How SEE impacts are embedded into business strategy will be influenced by the specific impacts that have been distilled during the preceding steps. For example:

- **GE** has identified the creation of a new generation of eco-technology – a strategic target that focuses on its research and development and operations
- **GSK** has identified a social impact, access to medicines – a strategic target that has profound implications for all aspects of its business from marketing and pricing, through to the location and focus of its research and development
- **Nike** has identified the environmental impact of products as its most pressing issue – a strategic priority which has fostered industry-wide partnerships and research into non-conventional and zero-harm compounds
- **Interfaceflor** has identified the need to become environmentally-impact neutral – a strategic target that will require the comprehensive re-engineering of the whole business

When including SEE parameters into the corporate strategic planning process there are five key groups of questions to be asked and answered:

- What is the goal?
- What external and internal factors are driving the inclusion of this SEE goal?
- What would we do differently, what would we do better?
- How will we deliver the goal?
- What will success look like?

The answers in each case need to be clear, compelling and supported by hard data and/or clear measurability. For the strategy to be successful it also needs the buy-in of those who are going to implement it.

4.4.1 Timeframe

Not all companies embed SEE factors into corporate strategy straightaway. For example, in 2009 Forum for the Future was invited by PepsiCo to use scenarios to help identify the major sustainability risks and opportunities that it will face in 2030. The result is that PepsiCo is building a team to focus on sustainable agriculture so it can mitigate the risks that climate and water crises pose to its supply chains, now and in the future, in order to protect its corporate strategy.

> *"…. our Scenarios 2030 project has shown us …. we cannot contribute properly to finding an end to the climate crisis until we bring environmental and social governance into our long-term business strategies/decisions. It's not all about the risks, but also about the opportunities."*
>
> *Indra Nooyi, Chairman and CEO, PepsiCo*[14]

Such approaches raise the question of the correct time-horizon to use – to which there is no right answer. But major companies have adopted far-reaching horizons – to 2030, 2050 and occasionally beyond, driven by the knowledge of the time it will take them to address the SEE issues, find the solutions, and adapt their companies and value chains.

Environmental Impacts: one company's journey

In **Unilever's Environmental Performance Report 2000** the company focused on the improvements in the environmental performance of its manufacturing operations worldwide since 1995, the percentage improvements over 1996, and the target reductions to 2004. Environmental impacts in the value chain were only briefly mentioned, referred to as exploratory initiatives on eco-efficiency in the supply chain and on sustainable use of resources.

10 years on, in **Unilever's Sustainable Living Plan 2011** (which covers all three SEE subjects), environmental performance reporting has moved on from its focus on in-house manufacturing. Analysis has shown the company that manufacturing is not where the company's major environmental impacts are. Attention has instead broadened out from these direct impacts to focus on the company's full value chain impacts and is now directed to three key measures: greenhouse gas (GHG) emissions, water, and waste. These three have been greatly expanded to cover the company's footprint, way beyond its own operations, from sourcing, through consumer-use, to disposal. The company has set targets of the sustainable sourcing of 100% of agricultural raw materials, and halving the environmental footprint of its products by 2020.

4.4.2 Pushing out the frame of reference

How wide should your consideration of the strategic implication of your company's impacts be? What should be your frame of reference? Again, there is no right answer. What is instructive is to look back at how a leading CR company started to manage its SEE impacts and where it is now.

Three points are clear:

- It is important to build your capability to account for your own performance, before attempting wider goals
- As your information and understanding grows, so you can tackle more stretching targets
- Taking this 'build' approach enables you to set targets with confidence – and credibility

[14] Please see www.forumforthefuture.org/project/pepsico-global-scenarios-and-strategy-2030/overview

The sustainable sourcing targets of Unilever feed into one of the most stretching targets of any multinational company: *"…to decouple growth from environmental impact ….. to halve the environmental footprint of the making and use of our products…. by 2020."*

SEE impact identification and management is a journey, and you only find out what you are capable of along the way.

4.5 Communicate – and listen

The steps described in this section again expand management thinking and understanding into new areas. There are new analytical tools, new perspectives and, prospectively, major new strategic initiatives. You cannot expect your colleagues, and the company's stakeholder audiences, to be at the same level of understanding immediately – however much they may sympathise with your intentions. And the more ambitious your plans, the more important it is to have the whole company – including the Board – committed to them, with heads as well as hearts. CEO endorsement and participation in communicating the company's SEE impact management strategy will be critical to its achievement and credibility. Reversing the decline in trust in business communication requires the active engagement and participation of both internal and external stakeholders (see Figure 12 and Section 5.5).

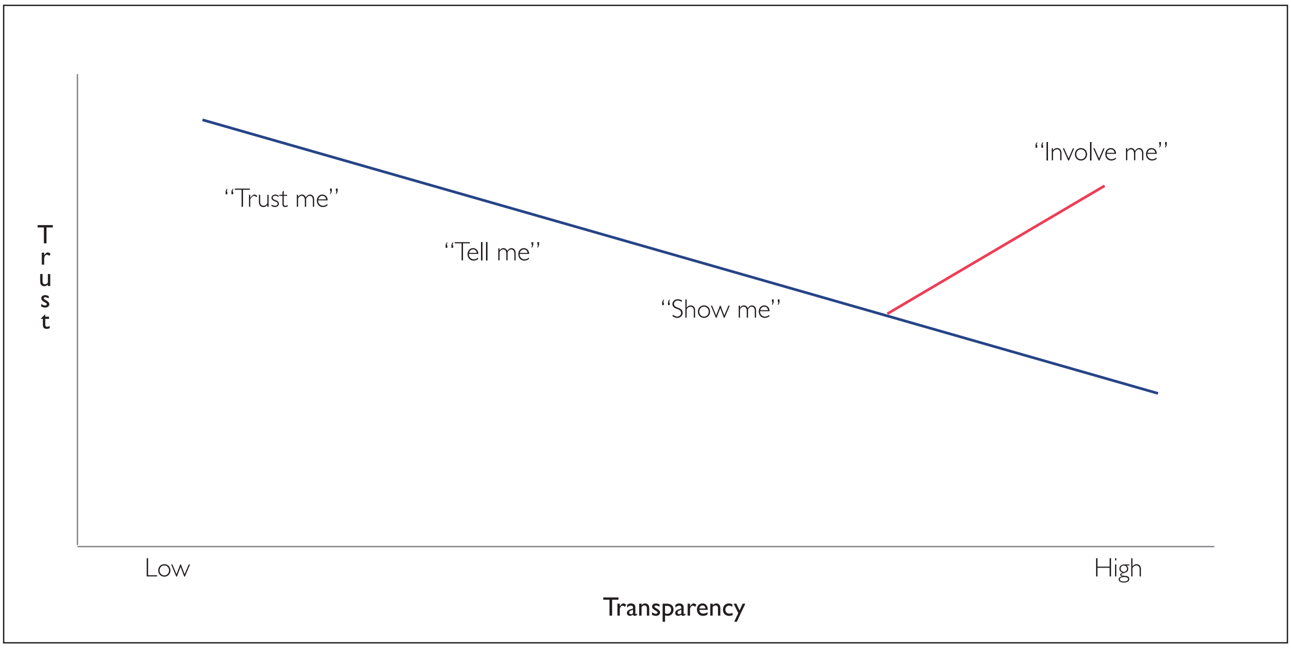
4.5.1 Internal communications

The self-assessment (from Section 2) and scenario development (from Section 4.3) described earlier will have provided important opportunities to introduce colleagues to SEE impact identification and to develop shared thinking on how the company should respond. Important steps now are to follow-up these introductions with detailed briefings and Q&As on the proposed strategy.

- Start with the top team and build coalitions of support.
- Cascade through the organisation, inviting each team leader to share the plans with their reports.

Be as explicit as possible on implementation steps. Ensure you request, receive and consider feedback. See this as a conversation in which you will positively seek people's views. Commit to follow-up, and deliver progress reports as your colleagues implement the plans through their line responsibilities. Your feedback is essential to reinforce the core messages, demonstrate that you and your colleagues are listening and to re-assure internal stakeholders that they are being heard.

Figure 12: Trust me, tell me, show me, involve me: building trust in business communication



Note: developed by Shell after Brent Spar and adapted by David Grayson for Sustainable Business Elective teaching material for Cranfield School of Management MBA class 2011/12.

4.5.2 External communications

Once internal communication is underway, share the analysis, strategy rationale and actions with your relevant external stakeholders – ensuring communication is either from senior leadership or, at minimum, is presented by the manager responsible internally for the group (e.g. if the stakeholder group is socially responsible investors make sure it is via the Investor Relationship Manager who leads the communications). Listen to the stakeholders' response. If their learning is different from the intended message, or they raise subjects that you have not covered, it is important to clarify your analysis and plans.[lviii]

If your CR report doesn't articulate a compelling assessment of your organisation's SEE impacts, both positive and negative – don't be surprised if no-one else does. Use language you understand and present the information in a way that is respectful of your stakeholders, so that they have the opportunity to form for themselves a well-founded understanding of your company. If you find that the material you are planning to share is full of photographs of beautiful sunsets and your business is in (for example) mechanical handling – go back to your input/output flow chart and self-assessment, identify the real issues, and include instead relevant photographs of what you are actually doing.

Make your feedback loops – internal and external – transparent. Too many companies say they take stakeholders feedback into account but often there is very little evidence to substantiate this claim, and no examples given of how feedback impacts company behaviour or strategy. No wonder corporate communications are often viewed so sceptically!

Finally, communication is a combination of words and actions. No amount of fine words will replace commitment in action. Make sure the company's leadership 'walks the talk'. Start on the journey to embedding SEE impact management into operating practice using realistic timescales.

5. CR challenges and the future

Some of the challenges in identifying, prioritising and managing a company's SEE impacts just don't go away. These challenges can thwart the best laid plans and de-rail the best of intentions. 'There are no free lunches'. This is as true in managing CR as it is in every other aspect of business management.

This section is about five of these CR challenges: **implementing CR strategic goals in times of change** (which can undo hard won gains); **the CR manager's role and responsibilities** (its potential and pitfalls), and **macro vs. micro issues** (what to do about those issues which do not appear on your company's SEE impact assessment but do feature as a widespread issue for your industry or business generally). Finally, this section looks at **pretender theories of managing business' role in society** (which maintain it is business as usual), and the really rare, **game changers** – changes in the business environment which really do make a difference to SEE impact identification and management.

5.1 Implementing CR strategy in times of change

Guides to becoming a responsible business suggest roadmaps, strategies and models on how to get going on the path to sustainability. However, most of the time implicit in these well-thought through pathways is the assumption that the contextual environment in which you will be executing your plans remains constant – e.g. the company's leadership remains in place, there are no major internal re-organisations, mergers, demergers or acquisitions, or market upheavals. Unfortunately, corporate life is not so tranquil, and any one of these events can be a serious setback to the implementation of CR plans.

The following five steps can help to ensure progress on CR targets to manage SEE impacts is kept on track despite unforeseen events.

- **Build a coalition of support** for the CR plan and targets among the different department heads; the CR plan needs to be owned and delivered by them, NOT by a standalone specialist CR department. Support your CR champions and your advocates on the Board, make sure they are supplied regularly with factual progress reports in a timely and effective manner.
- **Embed measurement** of CR performance into core business reporting systems, owned and operated by the responsible department; once a department has made the effort to embed reporting, and understands the benefits of doing so, it is less likely to abandon the process.
- **Report on performance** to staff, and externally. Establish an easy to use template for future reports, and make the CR report a useful and referenced part of the company's reputation management.
- **Pilot new initiatives** whether in supply chain standards, research and development, or new approaches to consumers, embed CR projects in business development. Ensure that there is more than one pilot project so that if one falls, damage to the overall plan can be limited.
- **Partner with influential stakeholders:** whether in specific projects, or as external advisors, a stakeholder who has an on-going project or who has built up a knowledgeable advisory role with the company is hard to ignore – particularly if they have a clear commitment to deliver benefits for the company and time is allowed for those benefits to become apparent to a new incumbent.

5.2 The CR manager's role and responsibilities

Much of the preceding guidance has been given on the basis that the reader, either a sponsoring manager or the prospective CR manager themselves, is able to take executive action within the company. Lack of authority is a frequent constraint that CR managers face. Clarity of role, consistency of job description, and the match of candidate to the job are other constraints.

Some CR job descriptions read like a shopping list of all the 'oh, and another thing' tasks that need to be done, but which no existing senior manager has the time to make a priority. [lix]

There are some job descriptions where 'Building trust programmes' jostle with 'Staff support for the Chairman and the Board', 'Stakeholder management', and 'Rationalising community involvement'. At the other extreme, the job title can go to an individual who, even though the clear CR challenge is a breakdown of trust in corporate operations (for example in banks following the financial crisis), the CR manager has a remit to handle corporate donations and volunteering only – nothing more. The individual appointed is not even a qualified professional, has no direct experience of operations, and reports to the head of marketing. In such circumstances it is hardly surprising that CR is held in low esteem and levels of trust in business languish.

For the CR manager to be able to fulfil their potential and support the company in tackling the SEE impact agenda, clarity of role, consistency of job description and match of candidate to the job are the key factors to get right (over and above normal good HR practice).

5.2.1 Clarity of role

CR is an integral part of leadership. The leader of the CR team must be a Senior Executive and at minimum the CR manager must report to a Senior Executive and be able to rely on the authority of that member of the leadership team, in the conduct of the role. Care needs to be taken in deciding to whom the CR manager should report; it should ideally be the CEO, or Board, or Executive Committee. Where the position is filled by a junior candidate with a PR brief, colleagues and stakeholders can draw their own conclusions as to the seriousness of the role – that the leadership is not serious in its commitment to managing impacts.

5.2.2 Consistency of job description

The CR role requires good judgement and influencing skills to guide the leadership through the impact self-assessment and strategy formulation process and then to persuade, encourage, and support colleagues in the CR aspects of their functional roles. It can be joined with functional roles where appropriate, for example with Head of Health, Safety and Environment where this is an important operational CR agenda. If a functional head is chosen, there can be a perception that the function dominates; for example, a CR manager reporting to the Head of Communications asked to lead a 'Building Trust' Programme internally could evoke a cynical response. Care needs to be taken when combining roles as the combination can distort perceptions of the role both among colleagues internally, and externally.

5.2.3 Match of candidate to the job

The job description and candidate match must be coherent. When starting out it may be a more realistic approach to make the role a project appointment, to evaluate and scope the CR tasks that are to be performed, prior to creating a 'fit-for-purpose' role.

Three alternative appointments are worth considering:

- **A senior executive** with a deep understanding of the business, and an affinity with the subject, who commands the respect of the business leadership can be an inspired choice of candidate. There is plenty of help available to get the internal candidate up to speed.
- **An interim CR manager,** experienced in managing the overall disciplines, building understanding and support for the agenda among senior executives, and in developing business-specific strategies can take the company forward to a point
- **A CR professional,** where there is a clear functional or industry base to the organisation's CR agenda (for example health and safety where professional qualifications will be essential) or pharmaceuticals (where an appreciation of industry regulation, structures, and issues will support assimilation). Caution is needed when recruiting a CR professional because of the absence of standards and qualifications in the field. The clear support of the Executive to whom they report will be needed to get any programme(s) up and running in the business.

5.3 Macro vs. micro issues

The issues filter that is described in Section 3.3 focuses the business' attention on those aspects of operations with the greatest impact. This is a widely-accepted measure for prioritising limited corporate resources and helps to explain to stakeholders, who may have different priorities, the rationale for company decisions. However, this represents a 'company-centric' approach.

Companies also face critics who take a 'systems' approach, for whom companies are only actors within a system which they believe is mal-functioning. Such critics point to 'macro' failures of the system and highlight examples – executive pay, corporate tax policies, or corporate lobbying. At an individual company 'micro' level, these issues may not rank as having a material impact. But when aggregated at the 'macro' – industry/business community/capitalist system – level, the material impact on society, the economy, or the environment can be significant.

For companies who are short-term profit-maximisers (there are a few), these are usually not issues of concern. For the majority of companies that are long-term profit-optimisers, such issues must be addressed if they are to maintain the freedom to operate, and the confidence and trust of society in what they do.

While you will almost certainly choose not to focus on impacts that are not significant to your company, you will have the opportunity to consider and arrive at a position for your company which will either contradict, or reinforce, stakeholder perceptions of the standards by which your company behaves. In so doing you will contribute to the 'macro' context within which these corporate impacts are assessed. Thinking through these issues will offer you the opportunity to mitigate the risks to which you are exposed.

Examples of macro and micro issues

Executive pay: the size and complexity of executive pay packages, coupled with the lack of transparency and discomfort in openly discussing issues of fairness and failure, have fuelled public mistrust of executive reward systems. The public outrage provoked by the leakage of information on Goldman Sach's 'golden parachutes' well illustrates how 'internal' micro policies can become 'external' reputational issues.

Corporate tax policies: the tendency to take a purely technical approach to tax planning and companies' unwillingness to disclose and openly discuss their tax policies and tax decision-making frameworks, have contributed to mistrust of their behaviour. Corporate tax policies are an important element of the economic impact of the corporate sector on society. Opaque policies to minimise tax liabilities can lead to questions about how company tax policies fit with public statements of commitment to CR – as GSK found to its discomfort in 2012.

Corporate lobbying: the claims of companies to support responsible policies, in their products and services as well as their corporate behaviour, can be undermined if the lobbying positions they adopt, or as importantly are perceived to adopt, are diametrically opposed. VW has been subject to a heated internet campaign when Greenpeace highlighted the disparity between the company's 'eco'-claims for its products and the position VW was taking in Brussels opposing cuts in CO_2 emissions.

5.4 Pretender theories of CR

One of the biggest pretender theories of CR is chequebook philanthropy – 'don't ask me about the impact of my business on society and the environment, here is a cheque for a myriad good causes, now leave me alone to get on with my business'.

Too often corporate philanthropy has been a distraction and used as a smoke screen for inaction. It has often been used as a way for businesses to avoid attending to the implications of operating in a resource constrained world which is environmentally damaged and socially challenged. Businesses need to focus on their corporate responsibilities – to minimise their negative SEE impacts and maximise their positive ones. In developing this depth of understanding of how their business can really contribute to society, they will be able to identify where and how they can add real value to their voluntary philanthropic contributions. A telling comment was made in the immediate aftermath of the Indian Ocean tsunamis, when corporate partners of the World Food Programme (WFP) provided it with a wide range of 'in-kind' help that gave it 'the edge in moving aid fast'. The question the Executive Director of the WFP posed in the Financial Times was: "If we can do it in tsunami-ravaged communities, [why can't we] do it when the wave that is swallowing people up is hunger and poverty?" [lxi]

A recent pretender theory that has gained some credence in business circles is 'CVS – Creating Shared Value', as expounded by Professor Michael E Porter and Mark R Kramer in their article in Harvard Business Review in 2011. [lxii] In their article, the company is portrayed as the victim of unnecessary government interference; the authors stress that if managers only look to maximise the positive social benefits of their strategic decisions then social capital will be created. The examples they draw on suggest that any cost-driven environmental improvement, low-income consumer offering, employee investment programme, or relocation plan, is by definition a positive social gain. Undoubtedly, there is an element of progress in drawing attention to the positive impact business can have on society through its core activities, but this is only one part of a full understanding of CR. While it is correct that business can make a positive contribution to society through its operations, the two essential, equally important factors that Porter and Kramer overlook are:

- Negative impacts: the responsibility of business to mitigate its negative impacts. Not all corporate impacts are positive, some are profoundly negative, for example consider asbestos, Exxon Valdiz, Thalidomide, Bophal (Rachel Carson's Silent Spring and Jonathon Porritt's Capitalism as if the World Matters are also relevant reads). Government 'intrusion' to safeguard the health, safety and wellbeing of employees, to protect the environment, and to clarify the rights of consumers has not happened in a vacuum – it has been introduced, by and large, retrospectively, to protect;
- The importance of stakeholder engagement: the necessity for business to listen to society to get a good understanding of what its impacts are – positive and negative. In the twenty first century, societies around the world no longer passively accept business' right to unilateral action. Concerned consumers, citizens and employees want their legitimate interests and values taken into account.

The irony is that it is from the very behaviour of many in the corporate sector in failing to own up to and address its own short-comings that the loss of trust and the urge to intervene has arisen. Company actions – sometimes intentional, frequently through ignorance, the pursuit of short term profit, or simply poor management practice – have themselves undermined trust that business takes seriously a shared responsibility for the well-being of society, the economy, and the environment it is part of.

The bottom line is that CR – managing the SEE impacts of your business – requires business to manage all its SEE impacts, negative and positive, and – while taking responsibility for its own decisions – to be open and willing to acknowledge and address the interests and concerns of stakeholders.

Companies are not the sole determinants of what is responsible corporate behaviour, it is a question that is decided in dialogue with society. CR is not decided 'once and for all', it is subject to continuous change as society evolves and changes. What is clearly the responsibility of each individual company is their accountability for carrying out their business in accordance with the values, standards, and responsibilities they have accepted.

So beware theories that offer business as usual! Be wary of theories that give no credence to the difficult and sometime costly trade-offs that balancing social, environmental, and economic impacts requires, and which offer no assistance in how these trade-offs are to be made. Do not be misled by narrow theories that claim companies are the victims of unjustified harassment, instead of waking companies up to the twenty-first century challenge of nine billion people sharing a finite planet.

5.5 Game changers

So what are the game changers in the understanding of SEE impacts which demand attention in their own right? The 'elephant in the room' game-changing challenge of today is put starkly and succinctly by consultancy Volans:

> *"The fundamental, intergenerational task ... is to ... wind down the dysfunctional economic and business models of the nineteenth and twentieth centuries, and the evolution of new ones fit for a human population headed towards nine billion people, living on a small planet which is already in 'ecological overshoot'."* [lxv]
>
> *Volans*

The recognition that current patterns of consumerism and consumption are simply not available to emerging and future consumers if they are based on outdated, profligate production models is at the heart of the movement for sustainable development – and so by definition responsible corporate behaviour.

Leading businesses recognise that the CR agenda has strategic significance for business performance now and in the future and is a critical emerging value driver in the market. Incorporating their understanding and management of SEE impacts into their market offerings enables these companies to shape market expectations, develop consumer preferences, and shift from passive to active trust building with their consumers. The relationship moves on from 'show me' to 'involve me' which, harnessed to developments in technology, offers further opportunities for 'collaborative advantage' – and a change in business models.

The convergence of the fast-evolving technology of the internet, technological literacy, and the powerful sense of responsibility among stakeholder groups – particularly, but not exclusively, as expressed through 'social media' – is a further game changer. As David Jones, CEO of Havas (global advertising conglomerate) puts it in his book 'Who cares wins':

> *"Technology and social media have dramatically shrunk the world and made people realise that we are all connected, we are all global citizens genuinely impacted and affected by global events."*
> *David Jones, CEO of Havas 'Who cares wins'*

Drawing on Havas experience from around the world, Jones identifies two groups in society leading the change – both of whom he sees as fuelling the current rise in social activism and entrepreneurship utilising the internet:

- prosumers – defined by their attitudes and behaviours
- millennials defined by their birth year .

The combined effects of the financial crisis, concern over the environment and the deep sense of social responsibility felt by these individual citizens, are key drivers.

> *"Technology has dramatically empowered everybody and given them the ability to act and influence others. Ordinary people actually believe they have the power to effect positive change. Spurred by frustration and disillusionment, armed with more information than ever and empowered by their connections to one another, they are collectively insisting that the world become a better place."*
>
> *David Jones CEO Havas 'Who cares wins'*

To take just three areas of direct impact on companies, prosumers and millennials:

- accept the responsibility to hold power to account: empowered by being able to harness the support of many widely-dispersed individuals to articulate, for example, a shared interest in the earth's wellbeing, campaigners have found in the internet, a new and powerful voice. Leroy Stick (aka @BPGlobalPR) summed up the frustration with BP's irresponsibility in the Gulf of Mexico:

  > *"You know the best way to get the public to respect your brand? Have a respectable brand. Offer a great, innovative product and make responsible, ethical business decisions. Lead the pack! Evolve! Don't send hundreds of temp workers to the gulf to put on a show for the President. Hire those workers to actually work! Don't dump toxic dispersant into the ocean just so the surface looks better. Collect the oil and get it out of the water! Don't tell your employees that they can't wear respirators while they work because it makes for a bad picture. Take a picture of those employees working safely to fix the problem. Lastly, don't keep the press and the people trying to help*

you away from the disaster, open it up so people can see it and help fix it. This isn't just your disaster, this is a human tragedy. Allow us to mourn so that we can stop being angry."

Blogger Leroy Stick (aka @BPGlobalPR) on the Deepwater Horizon Oil Disaster 2010

- are passionate in their search for conscientious consumption: to looking beyond consumption to 'borrowing' or 'sharing' goods and services (for example consider Velib and 'Boris bikes' in Paris and London; Zipcar car club; Zopa low cost loans direct between lenders and borrowers, and Airbnb, the social bed and breakfast site). In a resource-stressed world the internet enables borrowing, pooling and sharing, individual-to-individual, without necessarily the intermediation of a corporation. These impacts may be small at present, but offer a highly attractive alternative to an 'own' and 'consume' economic model with potentially revolutionary consequences for traditional twentieth century market capitalism players.

- reject what are seen as discredited business models in favour of social entrepreneurialism: the revolutionary changes in social media and social responsibility are driving a whole new world of entrepreneurial activity. New social entrepreneurs want to tackle social and environmental issues through the businesses they run (for example Patagonia, Whole Foods, Groupon). It is no longer accepted that the world of business and giving back to society are two separate spheres of a person's life. The approach of social entrepreneurs typifies the view of the father of management gurus, Peter Drucker: [lxvii]

  "Every single social and global issue of our day is a business opportunity in disguise."

  Peter Drucker

Open collaboration via the internet opens up whole new business models, led by people unafraid to account for their company's behaviour and impacts. They may enjoy an initial 'honeymoon period' in facing the difficult trade-offs that business operations entail, but their determination to offer new more transparent ways of tackling social, environmental, and economic impacts offers a whole new way of working with their influential consumers – and beyond. This 'can do' attitude and the application of business thinking and disciplines to intractable social and environmental issues will bring with them their own challenges, but may just also bring some solutions too.

6. The Last Word

Is identifying corporate impacts easy? No. Is it fruitful? Yes. Should it be an integral part of management in the twenty first century? Certainly!

For those concerned about the future of the human race on planet earth, it is a no brainer. For those committed to quality in management it is the logical next step to embrace social, environmental and economic impacts in the total quality management of their enterprise.

A great deal of CR is boring – it is doing mundane tasks consistently, accurately, and predictably, to high standards, day after day. The un-sung heroes of twentieth and twenty-first century business have been the individuals who perform such repetitive tasks running factories, machines and computers, maintaining plant, or ploughing, sowing, and harvesting crops. Consistent, high standard performance has delivered unparalleled energy, water, food and services to millions of people worldwide, improving health, living standards and individual life opportunities. This has been CR in action.

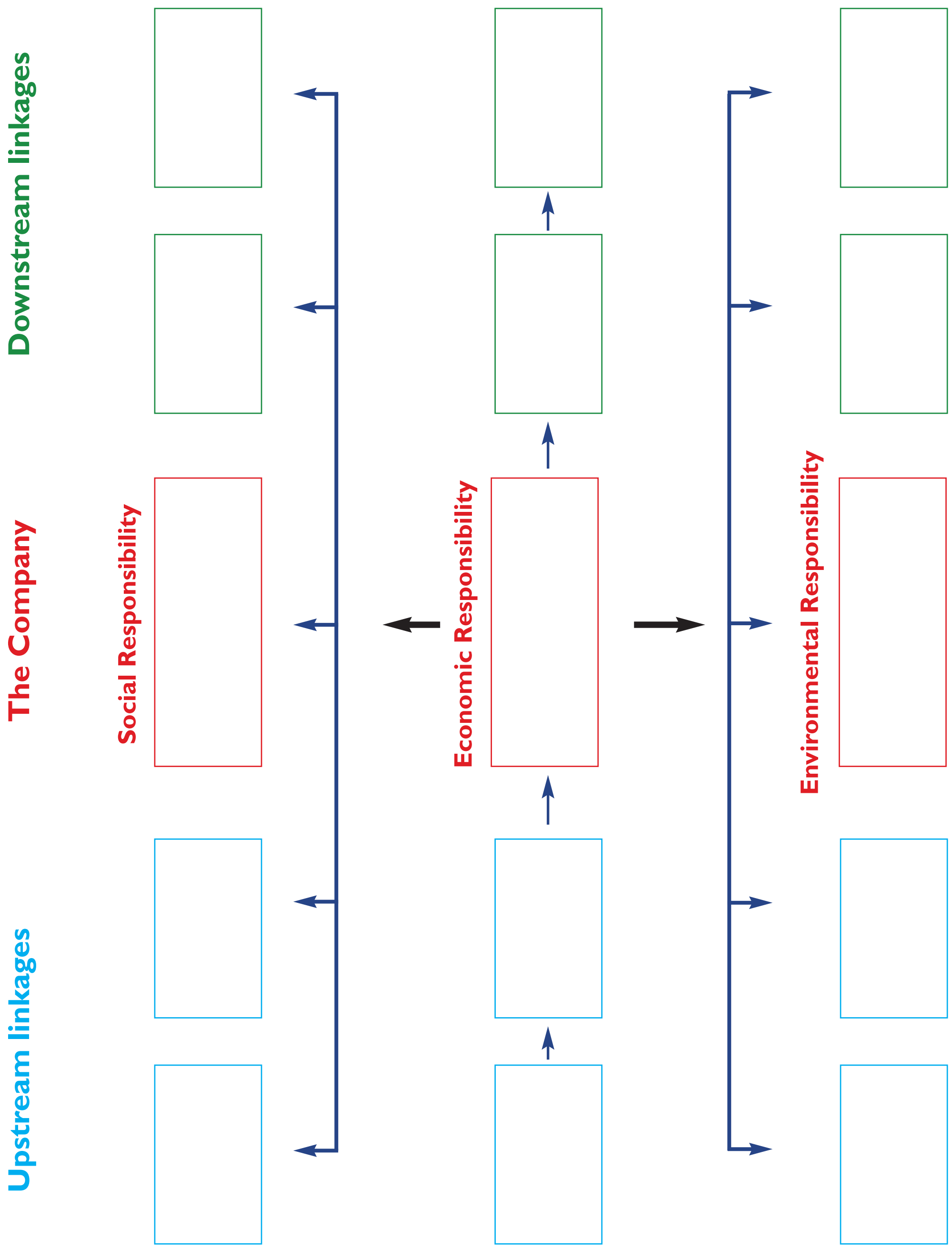
We now need to 'up our game' and with the same dedication to excellence in operations, continuous learning in our practices, and an openness to embracing innovation in all that we do, accept responsibility for our company's SEE impacts.

The final word should go to one of the most inspirational practitioners of CR talking about his company Interface's search for sustainability. For the self-proclaimed 'radical industrialist', the quest for sustainability requires no less than a change in the business paradigm throughout the business world. Rising to the challenge of understanding your company's total social, environmental and economic impacts is indeed an exciting approach to management – and an idea whose time has come.

> *"Zero footprint, expressed as reaching the top of Mount Sustainability, has been the most powerfully motivating initiative I have ever seen in 55 years of business, providing a shared higher purpose for 4,000 people. For this to take hold throughout the business world, a change in the business paradigm is needed."*
>
> *Ray Anderson (1934-2011), Radical Industrialist, former founder and Chairman, Interface*

7. Appendix

**A proforma chart for plotting your input/output flow of activities.
See Figure 3 on page 17 as an example**



A proforma self-assessment checklist. See Table 4 and 5 as an example

Activity	Responsible department/ manager	SEE impact	Measurement	Benchmark	Stakeholder(s)
Leadership, values and strategy					
Finance, including shareholder relations					
Purchasing					

Activity	Responsible department/ manager	SEE impact	Measurement	Benchmark	Stakeholder(s)
Operations (1): employees					
Operations (2): safety health and environment					
Marketing and Sales					
External relations					

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