Responsible Business

Challenges remain for the longer term

Sustainability Ambitious strategic shifts are needed to make progress, says *Sarah Murray*

While many companies have embraced energy efficiency or resource management, some argue that corporate leaders must go beyond incremental change and transform their business models. So as Business in the Community (BITC), the UK charity, releases its 2013 Corporate Responsibility Index, the question is whether companies can make the ambitious strategic shifts needed to achieve global development that is sustainable.

To look at the activities of some leading companies, it might appear that the corporate tide is turning towards business models that adhere to the concept of sustainable development, despite what some see as weak government leadership on environmental issues.

"There's a dramatic political failure. For some reason we can't get politicians' heads out of the electoral cycle," says Rob Cameron, executive director of SustainAbility, the think-tank and strategy consultancy. "We have to find a way to get politicians to accept the urgency of the situation rather than pretend it's not there."

Meanwhile, companies such as Kingfisher, Marks and Spencer (both feature in the index), Unilever, Nestlé and Procter & Gamble have declared ambitions to transform their supply chains through strategies that range from supporting African smallholder farmers to imposing rigorous environmental standards on suppliers and redesigning products.

"The commitment on the part of many businesses now means that there is far more leadership coming from the business sector than from government," says Jonathon Porritt, founding director of Forum for the Future, a sustainable development non-profit body.

The results of BITC's index indicate that some companies – at least those in the ranking – are performing well. Yet corporate rankings and sustainability awards do not necessarily indicate widespread change. BITC's index covers more than 100 companies but represents a fraction of the UK corporate landscape.

Moreover, companies that have received accolades for responsibility strategies have sometimes proved the very opposite of responsible. The numerous environmental awards won by the fallen energy trader Enron did not stop it becoming embroiled in a massive accounting scandal.

Even so, it is becoming harder for companies to hide misconduct or environmental abuse. The spread of communications technology has made increased transparency about how companies make and sell their products a fact of life for business leaders.

"If your sustainability report lists the factories in your supply chain and talks about their environmental and social standards, it's easy for anyone to go on to a social media site to find people working in those factories and ask them what conditions are like," says Professor David Grayson, director of the Doughty Centre for Corporate Responsibility at Cranfield School of Management.

A Nestlé-supported development programme to regenerate Haiti's coffee industry

This new era of transparency has coincided with some companies becoming bolder in what they disclose publicly. In a recent study jointly produced with Oxfam, Unilever investigated its supplier factories in Vietnam and found its public commitments on workers' rights "severely lacking" on the ground, particularly in regard to wages.

At one time, a company reporting on its own failings would have been unthinkable.

"And it's getting easier to tell substance from froth," says Mr Porritt. "Companies can't get away with it because of increased transparency and because of the degree to which they hold themselves up for ridicule if they start over-claiming."

Many question whether improved transparency and the evolving sustainability strategies of a group of leading companies will do enough to address the social and environmental pressures that are facing the world.

Here, Mr Porritt is less optimistic. He sees only "relative achievement" by the corporate sector as a whole. "The gap between those that are setting the pace and those that are lagging the field is as great as it's ever been," he says. "And that's problematic – we're not seeing a general lift."

However, questions remain on the matter of just how effective rankings can be and how far they can actually go to promote awareness of sustainability issues among companies.

SustainAbility's Mr Cameron says the issue is much more fundamental, "Many organisations are going through a phase of questioning about the kind of company they want to be. And that's interesting because it starts to connect sustainability with the topic of brand values and corporate culture."

There are other concerns about how, in a sector often driven by short-term financial goals, companies can develop longer-term strategies needed to address issues such as poverty, climate change and global water stress.

"How will 9bn people live well within the constraints of one planet? That's the big question," says Prof Grayson. "Models of capitalism have to be able to answer that question, otherwise they're not going to be sustainable."

We live in the age of small business

Opinion
JULIE MEYER

The phrase "responsible capitalism" is never going to set the world on fire. Movies will not be made about it and MBA graduates may sneer. Yet businesses that are built responsibly, particularly small and medium-sized companies, are destined to succeed.

Against a backdrop of sluggish economic growth on either side of the Atlantic, small businesses and entrepreneurs have created a disproportionate share of new jobs. You would be hard pressed to find any bright young sparks under 30 who would not rather work for themselves.

The digital world has enabled authors, artists and kitchen-table entrepreneurs to punch above their weight and grab a share of revenue in transactions without needing the expensive infrastructure of a big company. Responsible companies are being created by individuals every day of the week.

We have entered the age of the individual capitalist, the natural entrepreneur working hand-in-hand with big business. The UK's most successful small and medium-sized enterprises are defined by key relationships with large companies that provide access to the mainstream markets.

Ultimately, entrepreneurs have responsibilities – to shareholders, employees and customers – to ensure the integrity of their relationships with their corporate partners.

Accountability happens at the individual level and the fluid nature of business relationships introduced by the internet enables people to act responsibly more easily than ever before. Today there is no trade-off: doing business responsibly is actually good business.

Julie Meyer is managing partner of the Ariadne Capital Fund

On FT.com »

BITC CR Index
Full table with list of winners at:
www.ft.com/responsible-business

Sights set on the board

Corporate governance

The most important issue is the quality of management, says *Rod Newing*

During his 10 years as a fund manager at Gartmore, Sacha Sadan reacted to poor performance by selling shares, or by going short to make money as their prices fell. However, he found this frustrating. "I cared passionately about how companies were run," he says. "Some were run brilliantly, some were run less well and some were terrible."

Now, as director of corporate governance at Legal & General Investment Management, he is responsible for working on environmental, social and governance matters with the companies in which LGIM invests, in order to improve their performance. With a range of equity and fixed interest index funds, the fund manager holds investments in every company in each index – about 700 in the United Kingdom and several thousand overseas.

The most important issue is the quality of management. Mr Sadan must, therefore, ensure these companies have the right board structures and the right people and diversified skills and international experience – especially in companies with overseas revenue. He also encourages recruitment of leading executives without board experience.

"We don't want eight people all with the same 'groupthink'," he says. "We want more challenge on the board. We spend a lot of time making sure the non-executive directors have useful and different skills. We don't want them to be like policemen, stopping the company doing things, but to have the talent and skills to encourage management to do different things."

Pay is another thorny issue. Mr Sadan says companies are moving away from offering incentives on earnings per share in favour of longer-term measures such as sustainability, health and safety or research and development.

> 'We spend a lot of time making sure the non-executive directors have different skills'

His eight-person team prioritises companies and sectors with the most improvement potential, such as mining and oil and gas, to raise awareness of corporate social responsibility issues. Initially, many were happier for investors to sell down their stake, he says, as it was less trouble than accepting new ideas. But by being discreet and committed to the long term, he has won the trust of companies that now often contact him for advice. The fact that his company is seen as neutral helps too.

"We can't sell and we won't go away," he says. "My job title has been described by others as 'chief nagger'. It is our responsibility to improve the companies we invest in, and you get more done through influence than by selling."

Reporting directly to the chief executive, he has two non-executive directors to provide "air cover" and ensure that he acts consistently with LGIM's policies published on its website.

"We don't do this for 'fluffy' reasons or to ensure a nicer world for our children," he says. "We want each company to be brilliant, so we add value and will continue to add value."

Business in the Community Corporate Responsibility Index 2013

First launched in 2002, Business in the Community's Corporate Responsibility (CR) Index measures companies on their social and environmental impact, and the extent to which responsible business is integrated into their strategy, writes **Sarah Murray**.

With participants maintaining high scores over recent years, the charity BITC is now considering how to adapt the index so that it pushes companies to improve further.

Taking the form of an online questionnaire, the index covers four areas: corporate strategy, integration, management and impact (which covers six environmental and social impact areas) with questions on everything from diversity policies to carbon emissions reduction goals.

Points are awarded for individual questions from which companies are given percentage scores for each area. These are then included in each company's overall percentage score, which sets the performance band – Bronze, Silver, Gold, Platinum or Platinum Big Tick – in which they appear.

With 107 companies in this year's index (14 of which are newcomers) the average overall score is 90 per cent – slightly higher than that of the past two years.

The continued high scoring suggests that participants are maintaining commitment to a responsible business agenda, says Alan Knight, BITC's marketplace sustainability director, who is responsible for the CR Index.

The challenge is to urge companies on. "We want to work out how we can use the index as a tool in helping business think about long-term transformation," says Mr Knight.

This year, questions have been included to assess the extent to which companies are engaging in long-term planning, or how they use their "unique contribution" as a business to foster a more sustainable economy.

In future, BITC plans even more penetrating questions. As Mr Knight points out, this must be balanced with the aim to encourage more companies to participate.

"The tactical challenge is keeping it long enough to cover as many issues as possible while not being overwhelming," he says.

"So I have to achieve alchemy by making something that is shorter, while asking more and deeper questions."

2013 CR Index

Platinum Big Tick

Company	Industry sector
Alliance Boots Group*	Food & drug retailers
Anglian Water	Gas, water & others
Anglo American*	Mining
Barclays*	Banks
Carillion*	Support services
Costain Group	Constr. & materials
Dairy Crest Group	Food producers
EDF Energy*	Electricity
Hallmark Cards	General retailers
Heathrow Airport*	Travel & leisure
Heineken UK*	Beverages
J Sainsbury*	Food & drug retail
Jaguar Land Rover	Automobiles & parts
Kier Group	Constr. & materials
Kingfisher*	General retailers
KPMG*	Accountants & cons
Legal & General Group	Life insurance
Lloyds Banking Group*	Banks
M.A.G	General retailers
Marks and Spencer*	General retailers
MITIE Group	Support services
National Grid*	Gas, water & others
Northumbrian Water*	Gas, water & others
Pearson*	Media
Premier Farnell	Support services
PwC*	Accountants & cons
Tata Consultancy	Accountants & cons
The Co-operative*	General retailers
The Crown Estate	Gas, water & others
United Utilities*	Gas, water & others
Veolia Water UK*	Gas, water & others
Wates Group	Constr. & materials

* Participated in the CR Index since launching in 2002

Source: Business in the Community