

the world in your HANDS

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DESPITE THE INCREASED INTEREST IN SUSTAINABLE DEVELOPMENT AND CSR THERE IS STILL MUCH TO BE DONE. THIS ARTICLE EXPLORES SOME OF THE EFFORTS UNDERTAKEN BY GOVERNMENT AND BUSINESS IN THE UK TO TACKLE GLOBAL ISSUES.

The current state of the world does not make for good reading. Newspaper headlines indicate that the environment continues to be degraded, social divides are widening, disease and poverty threaten to decimate populations and conflict over resources such as oil continue to threaten world peace. So just what is being done by Britain to change this course to one of sustainability and equality?

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GOVERNMENT AND BUSINESS – JOINING FORCES TO TACKLE GLOBAL PROBLEMS

Numerous national and international governmental programmes are addressing the current poor health of the world and its inhabitants. However, politicians know they alone cannot solve the problems and there is a need for partnership from all sectors of society, including business. This was recognised in September 2000 when 189 heads of state ratified the Millennium Declaration that offers a common integrated vision on how to solve some of the major challenges facing the world. The declaration resulted in eight Millennium Development Goals focused on, amongst others: reducing poverty, improving the quality of peoples' lives, ensuring environmental stability, tackling HIV/AIDS and other diseases, and building partnerships to ensure globalisation becomes a more positive force for all the world's people.

The theme of partnerships and 'working together' to solve global problems were promoted at the World Summit for Sustainable Development in 2002, which focused on poverty and the access to safe drinking water and sanitation. It agreed several aims, including:

- To reduce the number of people who are not connected to clean drinking water supplies from over 1 billion to 500 million by the year 2015;
- To halve the number of people without proper sanitation to 1.2 billion;
- To increase the use of sustainable energy sources and restore depleted fish stocks.

PARTNERSHIPS CAN DELIVER CHANGE

The delivery mechanism for many of the new agreements was partnership – over 60 partnership agreements were agreed involving governments, business and the NGO community. Many environmental groups protested at the lack of progress since the Rio summit in 1992. Politicians pointed out that the summit had moved on from issues like biodiversity and climate change to tackling poverty and poor living conditions. Business was highly visible and had a sophisticated approach to engagement and was a key partner in many of the partnership agreements. The World Business Council for Sustainable Development (WBCSD) was one such business group.

The WBCSD was established in 1991 and now comprises a coalition of 170 international companies united by a shared commitment to sustainable development. Its member companies are drawn from more than 35 countries and 20 major industrial sectors and are associated with a global network of 45 national and regional business councils and partner organisations located in 40 countries, involving some 1,000 business leaders globally. The WBCSD mission is to provide business leadership as a catalyst for change toward sustainable development, and to promote the role of eco-efficiency, innovation and corporate social responsibility. This is chiefly achieved through meetings and the publication of reports. For example its report launched in March 2004, *'Doing business with the poor: A field guide'*, explores how several companies are developing markets for four billion potential customers in ways that benefit both the poor and the company.

What is worrying is that, despite WBCSD and other international initiatives, there appears to be a growing gap between the efforts of business and industry to reduce their impact on the environment and the worsening state of the planet as identified by the United Nations Environment Programme. But also in seeing it as a source of innovation. Why? Because only a small

WHAT ARE INDIVIDUAL BRITISH COMPANIES DOING?

Since the creation of the Millennium Development Targets and WSSD there has been a flurry of activity. The UK government has been actively pursuing its partnership commitments. For example, an initiative on the issue of financial transparency and governance in the extractive industries appears to be changing attitudes (Box 1). Still within the financial sector a voluntary initiative – the Equator Principles – established by banks – including British banks like Barclays – is looking at ensuring large investments made by them have appropriate social and environmental safeguards as conditions with the loan (Box 2). The Principles are generally welcomed but as yet they are untested.

So what are individual British companies doing? Are issues such as climate change, water scarcity, health, sustainable production, and governance important to business?

Vodafone, for instance, is attempting to make ethical and responsible business practices an integral part of its mission. It is promoting, through company forums, issues such as responsible procurement, energy efficiency and the recycling of handsets. Within its network, Vodafone is piloting mobile technology to help diabetics monitor their conditions. Within health, it is supporting measles-vaccination programmes in Africa. Furthermore, these approaches are leading to innovations and the development of new markets, for example, speaking phones for the visually impaired.

1

A GOVERNMENT-LED INITIATIVE –

The Extractive Industries Transparency Initiative (EITI)
The Extractive Industries Transparency Initiative was announced by UK Prime Minister, Tony Blair, at the World Summit on Sustainable Development. It is managed by the Department for International Development (DFID) and focused on three countries: Azerbaijan, Ghana and Nigeria. Its aim is to increase transparency over payments by companies to governments and government-linked entities, as well as transparency over revenues by those host-country governments.

Revenues from oil, gas and mining companies, in the form of taxes, royalties, signature bonuses and other payments should be an important engine for economic growth and social development in developing and transition countries. However, the lack of accountability and transparency in these revenues can exacerbate poor governance and lead to corruption, conflict and poverty. As a result of the initiative, Ghana has published its extractive industries revenues and Nigeria announced its intentions to do the same. Whilst in Azerbaijan, the Government has established a commission under the EITI auspices.

2

FINANCE – an industry-led approach to CSR

The 'Equator Principles' is an industry approach for financial institutions in determining, assessing and managing environmental and social risk in project financing. It resulted from a meeting of banks in London in October 2002 where they decided that they needed a framework for addressing environmental and social risks in project financing. This led to the drafting of the Equator Principles. Project financing plays an important role in financing development throughout the world. In providing financing, particularly in emerging markets, project financiers often encounter environmental and social policy issues. The 18 banks, including the UK High Street banks of Barclays and HSBC, have adopted the principles and recognise that their role as financiers affords them significant opportunities to promote responsible environmental stewardship and socially-responsible development. In adopting these principles, they seek to ensure that the projects they finance are developed in a manner that is socially responsible and reflect sound environmental-management practices. The principles apply to projects larger than \$50M and that represents 97 per cent of the project finance market.

number of companies are actively striving for sustainability – actively integrating social and environmental factors into business decisions. It is also because improvements are being overtaken by economic growth and increasing demands for goods and services. So is this the position in the UK? Just what is UK Plc doing to address these global issues and are there any signs that business in the UK cares about the bigger picture of global health and prosperity?

DEVELOPING STRATEGIES TO MAINTAIN A SUSTAINABLE BUSINESS

Innovations leading to business transformation may well be the key to a new way of doing business. Article 13, in its recent insight report *Business Unusual* assessed FTSE 350 companies to see if actions were being taken by the businesses on business-critical global issues such as governance, climate change, health and poverty. The findings, based on evidence from published annual reports assessed by independent SERM Rating Agency, revealed that three per cent (equal to 10 companies) were actually transforming their business to deal with business-critical issues. These businesses recognised the need to develop strategies to maintain a sustainable business. An example is the food producer and processor Unilever (Box 3); it needs a reliable supply of fish to produce its fish products such as fish fingers. Question: How best to ensure the supply? Answer: Take an active involvement in promoting responsible and sustainable harvesting of fish stocks. As a result it helped support the establishment of the Marine Stewardship Council. Other businesses identified by the report included Kingfisher (Box 4) and Anglo American (Box 5).

THE THREAT OF CLIMATE CHANGE

Climate change was one of the global concerns Article 13 assessed. Given the growing acceptance of climate change as a big issue to address, when will the major oil and gas companies transform their business into the renewable-energy sector? There is some evidence this is slowly starting to happen as investments in wind, solar, geothermal and photovoltaic programmes increase. However, this investment is negligible (about a ratio of 100:1 in favour of traditional energy sources) compared to the investment in oil and gas exploration and production or to countries such as Denmark, Germany and Japan. Despite this, some oil companies are making efforts to reduce their direct impact on climate change.

BP appears to be the most progressive of the five largest energy companies. It pulled out of the Global Coalition for Climate Change in 1997; this was the coalition that lobbied against the Kyoto Protocol. It has made the commitment to improve energy efficiency by 15 per cent by 2011 and to reduce greenhouse-gas emissions by 10 per cent of 1990 levels, the latter it achieved in 2002. Examples of practical efforts have included the closing of a spare

turbine that was usually left running on a gas platform in Pompano in the Gulf of Mexico. This led to a CO₂ reduction of 8,000 tonnes per year, a fuel-cost saving of \$265k and an overall cost saving of \$400k per turbine. "Through this and other initiatives BP have added \$650M of value for an investment of \$20M on CO₂-reduction projects: a strong business case!" said Professor Paul Rutter, an oil and gas expert at Imperial College, London. However, the amounts are still small compared with overall sales/GDP of \$148.1bn.

Innovations in technology continue apace and BP has initiated a carbon-capture project whereby it plans to inject one million tonnes of CO₂ back into an empty gas reserve in Algeria. BP and Stat Oil from Norway are, at present, the only energy companies actively exploring this option for storing carbon.

THE BENEFITS OF CHANGE

Benefits for companies transforming to environmental and social goals are more than just improved compliance and risk management and include, amongst others, the development of new products and services, reputation and brand enhancement, as well as solutions to sourcing limitations. These benefits are recognition that business in the UK has a responsibility to play its part in shaping the well being of society. Today, the challenge is how to motivate other businesses in the UK and elsewhere who have chosen not to invest in CSR programmes, and as a result can gain a competitive advantage through lower costs. Will they need the 'stick' of legislation or will pressure from investors, consumers and media be enough, especially if the company is privately owned and has no public profile? Or will these companies see the benefits in more engagement in the issues? It is important that they do so, for without their support, some of the ambitious targets set by governments will sadly remain just ambitions. □

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Image courtesy MSC



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Some 1.1bn people in the world are without safe water. Is CSR the answer?

3

FOOD PRODUCTION AND PROCESSING – Unilever

The food processor, Unilever, has boldly embraced the sustainability agenda. As its corporate communications state: "We are committed to contribute to sustainable development. We see this as a hard-edged commercial imperative because we will only be able to maximise shareholder value and prosper in the long-term if we operate in a much more sustainable way."

The multinational Unilever faces extraordinary challenges in translating its vision into reality. Its first step was to structure its initiatives across three areas where it has direct control and believes it can make a substantial difference: agriculture, fish and water. The agricultural programme seeks to ensure continued access "to the key agricultural raw materials, and ultimately to develop market mechanisms that allow consumers and customers to influence the sourcing of raw materials through their buying habits." Unilever's procurement innovation rests in the development of sustainability guidelines for its five key crops – palm oil, tea, peas, spinach and tomatoes – through a process of stakeholder engagement including a multi-stakeholder advisory board.

4

RETAIL – Kingfisher Plc

The retailer Kingfisher realises that to fulfil its commitment to the creation of social, environmental and economic value it needs to be supported by effective management processes. With this in mind, it has developed a "Ladder" management model structured around a set of business-critical issues. In other words, a global business agenda translated into the specific strategic challenges in the European home-retail market. Kingfisher's approach, published in detail in its Plan for Corporate Social Responsibility is explicitly designed to enable different businesses within the group to innovate independently – reflecting their own market conditions – around a commonly accepted vision of the future challenges facing an organisation. Kingfisher's shared vision and "Ladder" approach is already delivering incremental changes to the group activity. The results to date have enabled the organisation to share and report on best practice, so encouraging employees' creativity to think (and realise) the unthinkable. The test for the organisation is whether these immediate successes can generate a step change from a price-focused retail tradition to a responsible and sustainable competitive edge.

Image courtesy of Anglo American



5

MINING – Anglo American

Operating in politically sensitive and economically deprived communities, the mining company Anglo American – an extractor of minerals and metals, such as gold and diamonds – recognises its importance within the communities it operates. Anglo American's subsidiaries have worked in partnership with local medical groups and NGOs to implement a series of initiatives to address serious community issues. In South Africa, HIV/AIDS is a serious health issue with more than 20 per cent of its 120,000 employees HIV positive. Since the late 1980s, Anglo American has been running education and prevention programmes. For example, its subsidiary Anglo Coal's HIV initiative has increased condom usage and treated sex workers and their clients. Anglo American's managed operations have extended anti-retroviral therapy at company expense to HIV-positive employees progressing to AIDS. Edward Beckham, Executive Vice-President of External Affairs at Anglo-American, said: "The company has now recognised publicly that the extension of interventions beyond the workplace into communities associated with its operations is vital for its own sustainability. We realised we needed to act, we had a responsibility."