ARTICLE 13 – EuropeanCEO – May-June 2005
(pages 174-175)

How corporate social responsibility can help manage risk

by Dr Paul Toyne,
director Article 13.

Corporate social responsibility (CSR) is all about identifying the risks and opportunities that reduce the negative impact of an organisation by improving its environmental, social and economic performance.

Ultimately it is about responsibilities wider than just shareholders, customers, and employees that extend to communities and society as a whole. However, from my experience it is mostly borne out of enlightened self-interest to reduce the risk to reputation and the bottom line.

For example, European companies like Anglo American investing in HIV healthcare programmes for its work-force in Africa may be doing so for moral reasons, because it's the 'right thing to do', but it is also a risk strategy to ensure it has a workforce for the future. Royal Dutch Shell's commitment to high environmental standards is not just about improving its environmental performance but also about managing the risks to their reputation if a disaster were to occur and the impact it would have on its licence to operate.

These approaches should not be condemned as they are seated in realism and are positive actions that improve situations. So just how can CSR help manage risk?

What are the main areas of risk to a business?

Corporate reputation, governance and ethics are all issues associated with CSR that have made the news headlines in the last few years. Examples include - the ethics of arms and defence deals, 'fat cat' director salaries and shareholder activism, illegal workers and supply chain issues, the financial scandal of Parmalat, and the famous collapses of Enron and WorldCom and false accounting. These are all topical issues that have demonstrated areas of risk to companies. All are important issues in their own right.

By answering the following questions I hope to demonstrate the important role CSR has within a business in identifying and addressing risk. What is risk? What do words like governance really mean? Why are they headline news? And what can CSR really do to help?

Risk

Managing and controlling risk is key to running a successful organisation. Risk can be defined as the possibility of suffering harm or loss. Within the area of CSR there are four general areas of risk.

Firstly the supply chain, country specific such as human rights abuses, or company specific risks such as pollution.

Secondly, operational risks which cover compliance with regulation, employee satisfaction and dangerous operations.

Thirdly, product which includes covers use of hazardous raw materials (e.g. nuclear energy) waste during production, and health and safety issues.

Lastly there is societal expectations, covering what society demands of a business in the 21st Century.

Governance

Good governance will ensure both current and future risks that affect all stakeholders are identified and that the appropriate internal controls (accountability mechanisms, systems and procedures) are used to mitigate, and in some cases, turn risk into opportunities. Poor governance reflects a culture where employees are not involved in the way things are done, or even worse, one where corporate governance (the way a business operates and the role of the board) procedures do not exist and whistle blowing becomes necessary. Very much connected with the issue of governance is the culture of the organisation.

Company culture

Providing an enabling culture whereby staff feel that they can ask inquiring questions about the running of the business or individual employees activities is desirable. This is because it acts as a safeguard and allows problems to be addressed early on, so managing risk. The demise of Baring Bank through rogue trading 10 years ago is an excellent example of what happens when poor governance and weak management allows staff to operate in isolation without anyone checking.

Corporate reputation

An organisation's reputation is built on its relationship with staff, customers, suppliers, investors and the community they operate within. These stakeholders are the very same that CSR activities seek to involve. This is why CSR can help maintain and enhance reputations. A negative reputation can lead to a drop in share value of the business, a decrease in profitability as customer and staff loyalty drops, a decrease in business opportunities (as potential partners question the trust and integrity), a decrease in new investment as the business is seen as a greater risk, and even increased insurance premiums.

How to manage risk

First the risk needs to be identified. This is where a company's culture is important. Having an organisational culture of accountability, transparency and staff involvement (inclusiveness) is beneficial as staff and suppliers can act as risk detectors and feedback on early warning signs. Here the human resources department has a role to play ensuring the culture of the organisation is one where there is a planned process that captures this

ARTICLE 13 – EuropeanCEO – May-June 2005 (pages 174-175)

feedback.

An example of this type of approach is that of Roche, who worked with Article 13 in identifying dilemmas for employees involved within the drug development side of the business.

The pharmaceutical industry is a highly legislated and regulated environment with numerous industry standard operating procedures (SOPs), guidelines covering all aspects of good practice in clinical trials, and review processes through external ethics committees. Through facilitated workshops the dilemmas experienced by Roche employees in everyday work

Dr Paul Toyne, director, Article 13

that were not covered in SOPs or in Roche's own corporate principles were identified and their impacts analysed. The findings revealed that the organisation could be at risk if staff did not have a planned way to deal with dilemmas e.g. an ethical concern became a full-blown issue if left unmanaged. The need for some type of internal support for staff on ethical decisions and responsibilities became apparent. Staff did not want another 'policy' but a process that enabled staff to engage with the issues and resolve them. From this debate a process that dealt with four key themes: patients, colleagues, trust and integrity was developed. The approach was trialled and human resources staff and trainers have been key to integrating the approach into training and induction sessions. Through trialling, measures of success have been developed so that its implementation can be monitored and the approach improved. The strength of this work was the governance and buy-in generated by participation alongside the flexibility of bringing in facilitators and champions of issues in society.

This example demonstrates the emergent 'involve me' culture reflected in the wider corporate social responsibility agenda in which stakeholders, in this case employees, are working in partnership with their organisation to deliver an environment where risk, or indeed opportunity, is identified and managed.

'De-risking'

Everybody within the company from the directors to the staff at the 'coal face' has a crucial role in the development and implementation of CSR within an organisation. The development of CSR policies needs the strategic input from senior managers with input from all stakeholders involved, as without their support, implementation will simply not happen. It is the implementation of CSR policies that acts as a mechanism to support employees facing 'risks'. By first benchmarking your organisations performance on CSR activities you will identify areas of risk. Actions need to be identified and through regularly monitoring and evaluation the risks can be managed and ultimately be turned into an opportunity. Key to this is your staff, they are the ones that will know where the risks are. So their engagement is key. To help, there are a number of things you can do - run workshops to engage with staff and suppliers to explore areas of risk or develop interactive intranet sites showing case examples of good practice. Internally you could build in opportunities for promotion of good practice at staff meetings; involve staff in reviewing company policy and procedures to ensure values are consistent from procurement, recruitment, training, appraisals to exit interviews. Through consulting and involving staff more in the running of a business; and provide feedback questionnaires for employees, customers and suppliers you can demonstrate how the organisation is living its values.

Is CSR worth it?

Like all actions CSR requires an investment. The business case can be made through cost/benefit analysis on many CSR interventions e.g. on improving energy efficiency. However, how do you value your reputation? If you doubt the role of the CSR in risk management there is one other consideration. The EU is watching closely the implementation of the Operating Financial Review (OFR) as part of company law in 2005. This requires UK business to formally report on issues that are material to the business, depending on the company this could include CSR issues. In this way it is envisaged that non-financial reporting such as CSR reports will be incorporated into mainstream company reporting that is audited. If successful, it may be adopted across Europe and that will mean all CEOs will need to consider CSR as part of their formal reporting and risk management. This may be a good enough reason for CSR to be worth it.

- **Article 13 produces a guide on how to reduce risk.**
- **Questions to ask the board or senior management team.**
- **Do we have a way of managing risk?**
- **How do we identify and assess risk?**
- **Social and environmental and ethical risk can be addressed by CSR policies. Do we have CSR policies?**
- **Do these policies reflect the values of the company?**
- **Are these policies understood and practiced by the business?**
- **The answers to these questions should enable you to make a quick assessment of the strengths and vulnerabilities to risk in your company.**

Article 13 is a specialist advisor in governance, business responsibility and sustainable development. It works with companies, governments and academic institutions to meet the growing pressure for better performance, whether it be social, environmental, ethical or economic.

For further details see www.article13.com

How corporate social responsibility can help manage risk

by Dr Paul Toyne, director Article 13.

Corporate social responsibility (CSR) is all about identifying the risks and opportunities that reduce the negative impact of an organisation by improving its environmental, social and economic performance.

Ultimately it is about responsibilities wider than just shareholders, customers, and employees that extend to communities and society as a whole. However, from my experience it is mostly borne out of enlightened self-interest to reduce the risk to reputation and the bottom line.

For example, European companies like Anglo American investing in HIV healthcare programmes for its work-force in Africa may be doing so for moral reasons, because it's the 'right thing to do', but it is also a risk strategy to ensure it has a workforce for the future. Royal Dutch Shell's commitment to high environmental standards is not just about improving its environmental performance but also about managing the risks to their reputation if a disaster were to occur and the impact it would have on its licence to operate.

These approaches should not be condemned as they are seated in realism and are positive actions that improve situations. So just how can CSR help manage risk?

What are the main areas of risk to a business?

Corporate reputation, governance and ethics are all issues associated with CSR that have made the news headlines in the last few years. Examples include - the ethics of arms and defence deals, 'fat cat' director salaries and shareholder activism, illegal workers and supply chain issues, the financial scandal of Parmalat, and the famous collapses of Enron and WorldCom and false accounting. These are all topical issues that have demonstrated areas of risk to companies. All are important issues in their own right.

By answering the following questions I hope to demonstrate the important role CSR has within a business in identifying and addressing risk. What is risk? What do words like governance really mean? Why are they headline news? And what can CSR really do to help?

Risk

Managing and controlling risk is key to running a successful organisation. Risk can be defined as the possibility of suffering harm or loss. Within the area of CSR there are four general areas of risk.

Firstly the supply chain, country specific such as human rights abuses, or company specific risks such as pollution.

Secondly, operational risks which cover compliance with regulation, employee satisfaction and dangerous operations.

Thirdly, product which includes covers use of hazardous raw materials (e.g. nuclear energy) waste during production, and health and safety issues.

Lastly there is societal expectations, covering what society demands of a business in the 21st Century.

Governance

Good governance will ensure both current and future risks that affect all stakeholders are identified and that the appropriate internal controls (accountability mechanisms, systems and procedures) are used to mitigate, and in some cases, turn risk into opportunities. Poor governance reflects a culture where employees are not involved in the way things are done, or even worse, one where corporate governance (the way a business operates and the role of the board) procedures do not exist and whistle blowing becomes necessary. Very much connected with the issue of governance is the culture of the organisation.

Company culture

Providing an enabling culture whereby staff feel that they can ask inquiring questions about the running of the business or individual employees activities is desirable. This is because it acts as a safeguard and allows problems to be addressed early on, so managing risk. The demise of Baring Bank through rogue trading 10 years ago is an excellent example of what happens when poor governance and weak management allows staff to operate in isolation without anyone checking.

Corporate reputation

An organisation's reputation is built on its relationship with staff, customers, suppliers, investors and the community they operate within. These stakeholders are the very same that CSR activities seek to involve. This is why CSR can help maintain and enhance reputations. A negative reputation can lead to a drop in share value of the business, a decrease in profitability as customer and staff loyalty drops, a decrease in business opportunities (as potential partners question the trust and integrity), a decrease in new investment as the business is seen as a greater risk, and even increased insurance premiums.

How to manage risk

First the risk needs to be identified. This is where a company's culture is important. Having an organisational culture of accountability, transparency and staff involvement (inclusiveness) is beneficial as staff and suppliers can act as risk detectors and feedback on early warning signs. Here the human resources department has a role to play ensuring the culture of the organisation is one where there is a planned process that captures this

feedback.

An example of this type of approach is that of Roche, who worked with Article 13 in identifying dilemmas for employees involved within the drug development side of the business.

The pharmaceutical industry is a highly legislated and regulated environment with numerous industry standard operating procedures (SOPs), guidelines covering all aspects of good practice in clinical trials, and review processes through external ethics committees. Through facilitated workshops the dilemmas experienced by Roche employees in everyday work

Dr Paul Toyne, director, Article 13

that were not covered in SOPs or in Roche's own corporate principles were identified and their impacts analysed. The findings revealed that the organisation could be at risk if staff did not have a planned way to deal with dilemmas e.g. an ethical concern became a full-blown issue if left unmanaged. The need for some type of internal support for staff on ethical decisions and responsibilities became apparent. Staff did not want another 'policy' but a process that enabled staff to engage with the issues and resolve them. From this debate a process that dealt with four key themes: patients, colleagues, trust and integrity was developed. The approach was trialled and human resources staff and trainers have been key to integrating the approach into training and induction sessions. Through trialling, measures of success have been developed so that its implementation can be monitored and the approach improved. The strength of this work was the governance and buy-in generated by participation alongside the flexibility of bringing in facilitators and champions of issues in society.

This example demonstrates the emergent 'involve me' culture reflected in the wider corporate social responsibility agenda in which stakeholders, in this case employees, are working in partnership with their organisation to deliver an environment where risk, or indeed opportunity, is identified and managed.

'De-risking'

Everybody within the company from the directors to the staff at the 'coal face' has a crucial role in the development and implementation of CSR within an organisation. The development of CSR policies needs the strategic input from senior managers with input from all stakeholders involved, as without their support, implementation will simply not happen. It is the implementation of CSR policies that acts as a mechanism to support employees facing 'risks'. By first benchmarking your organisations performance on CSR activities you will identify areas of risk. Actions need to be identified and through regularly monitoring and evaluation the risks can be managed and ultimately be turned into an opportunity. Key to this is your staff, they are the ones that will know where the risks are. So their engagement is key. To help, there are a number of things you can do - run workshops to engage with staff and suppliers to explore areas of risk or develop interactive intranet sites showing case examples of good practice. Internally you could build in opportunities for promotion of good practice at staff meetings; involve staff in reviewing company policy and procedures to ensure values are consistent from procurement, recruitment, training, appraisals to exit interviews. Through consulting and involving staff more in the running of a business; and provide feedback questionnaires for employees, customers and suppliers you can demonstrate how the organisation is living its values.

Is CSR worth it?

Like all actions CSR requires an investment. The business case can be made through cost/benefit analysis on many CSR interventions e.g. on improving energy efficiency. However, how do you value your reputation? If you doubt the role of the CSR in risk management there is one other consideration. The EU is watching closely the implementation of the Operating Financial Review (OFR) as part of company law in 2005. This requires UK business to formally report on issues that are material to the business, depending on the company this could include CSR issues. In this way it is envisaged that non-financial reporting such as CSR reports will be incorporated into mainstream company reporting that is audited. If successful, it may be adopted across Europe and that will mean all CEOs will need to consider CSR as part of their formal reporting and risk management. This may be a good enough reason for CSR to be worth it.

- Article 13 produces a guide on how to reduce risk.
- Questions to ask the board or senior management team.
- Do we have a way of managing risk?
- How do we identify and assess risk?
- Social and environmental and ethical risk can be addressed by CSR policies. Do we have CSR policies?
- Do these policies reflect the values of the company?
- Are these policies understood and practiced by the business?
- The answers to these questions should enable you to make a quick assessment of the strengths and vulnerabilities to risk in your company.

Article 13 is a specialist advisor in governance, business responsibility and sustainable development. It works with companies, governments and academic institutions to meet the growing pressure for better performance, whether it be social, environmental, ethical or economic.

For further details see www.article13.com

How corporate social responsibility can help manage risk

by Dr Paul Toyne, director Article 13.

Corporate social responsibility (CSR) is all about identifying the risks and opportunities that reduce the negative impact of an organisation by improving its environmental, social and economic performance.

Ultimately it is about responsibilities wider than just shareholders, customers, and employees that extend to communities and society as a whole. However, from my experience it is mostly borne out of enlightened self-interest to reduce the risk to reputation and the bottom line.

For example, European companies like Anglo American investing in HIV healthcare programmes for its work-force in Africa may be doing so for moral reasons, because it's the 'right thing to do', but it is also a risk strategy to ensure it has a workforce for the future. Royal Dutch Shell's commitment to high environmental standards is not just about improving its environmental performance but also about managing the risks to their reputation if a disaster were to occur and the impact it would have on its licence to operate.

These approaches should not be condemned as they are seated in realism and are positive actions that improve situations. So just how can CSR help manage risk?

What are the main areas of risk to a business?

Corporate reputation, governance and ethics are all issues associated with CSR that have made the news headlines in the last few years. Examples include - the ethics of arms and defence deals, 'fat cat' director salaries and shareholder activism, illegal workers and supply chain issues, the financial scandal of Parmalat, and the famous collapses of Enron and WorldCom and false accounting. These are all topical issues that have demonstrated areas of risk to companies. All are important issues in their own right.

By answering the following questions I hope to demonstrate the important role CSR has within a business in identifying and addressing risk. What is risk? What do words like governance really mean? Why are they headline news? And what can CSR really do to help?

Risk

Managing and controlling risk is key to running a successful organisation. Risk can be defined as the possibility of suffering harm or loss. Within the area of CSR there are four general areas of risk.

Firstly the supply chain, country specific such as human rights abuses, or company specific risks such as pollution.

Secondly, operational risks which cover compliance with regulation, employee satisfaction and dangerous operations.

Thirdly, product which includes covers use of hazardous raw materials (e.g. nuclear energy) waste during production, and health and safety issues.

Lastly there is societal expectations, covering what society demands of a business in the 21st Century.

Governance

Good governance will ensure both current and future risks that affect all stakeholders are identified and that the appropriate internal controls (accountability mechanisms, systems and procedures) are used to mitigate, and in some cases, turn risk into opportunities. Poor governance reflects a culture where employees are not involved in the way things are done, or even worse, one where corporate governance (the way a business operates and the role of the board) procedures do not exist and whistle blowing becomes necessary. Very much connected with the issue of governance is the culture of the organisation.

Company culture

Providing an enabling culture whereby staff feel that they can ask inquiring questions about the running of the business or individual employees activities is desirable. This is because it acts as a safeguard and allows problems to be addressed early on, so managing risk. The demise of Baring Bank through rogue trading 10 years ago is an excellent example of what happens when poor governance and weak management allows staff to operate in isolation without anyone checking.

Corporate reputation

An organisation's reputation is built on its relationship with staff, customers, suppliers, investors and the community they operate within. These stakeholders are the very same that CSR activities seek to involve. This is why CSR can help maintain and enhance reputations. A negative reputation can lead to a drop in share value of the business, a decrease in profitability as customer and staff loyalty drops, a decrease in business opportunities (as potential partners question the trust and integrity), a decrease in new investment as the business is seen as a greater risk, and even increased insurance premiums.

How to manage risk

First the risk needs to be identified. This is where a company's culture is important. Having an organisational culture of accountability, transparency and staff involvement (inclusiveness) is beneficial as staff and suppliers can act as risk detectors and feedback on early warning signs. Here the human resources department has a role to play ensuring the culture of the organisation is one where there is a planned process that captures this

feedback.

An example of this type of approach is that of Roche, who worked with Article 13 in identifying dilemmas for employees involved within the drug development side of the business.

The pharmaceutical industry is a highly legislated and regulated environment with numerous industry standard operating procedures (SOPs), guidelines covering all aspects of good practice in clinical trials, and review processes through external ethics committees. Through facilitated workshops the dilemmas experienced by Roche employees in everyday work that were not covered in SOPs or in Roche's own corporate principles were identified and their impacts analysed. The findings revealed that the organisation could be at risk if staff did not have a planned way to deal with dilemmas e.g. an ethical concern became a full-blown issue if left unmanaged. The need for some type of internal support for staff on ethical decisions and responsibilities became apparent. Staff did not want another 'policy' but a process that enabled staff to engage with the issues and resolve them. From this debate a process that dealt with four key themes: patients, colleagues, trust and integrity was developed. The approach was trialled and human resources staff and trainers have been key to integrating the approach into training and induction sessions. Through trialling, measures of success have been developed so that its implementation can be monitored and the approach improved. The strength of this work was the governance and buy-in generated by participation alongside the flexibility of bringing in facilitators and champions of issues in society.

Dr Paul Toyne, director, Article 13

This example demonstrates the emergent 'involve me' culture reflected in the wider corporate social responsibility agenda in which stakeholders, in this case employees, are working in partnership with their organisation to deliver an environment where risk, or indeed opportunity, is identified and managed.

'De-risking'

Everybody within the company from the directors to the staff at the 'coal face' has a crucial role in the development and implementation of CSR within an organisation. The development of CSR policies needs the strategic input from senior managers with input from all stakeholders involved, as without their support, implementation will simply not happen. It is the implementation of CSR policies that acts as a mechanism to support employees facing 'risks'. By first benchmarking your organisations performance on CSR activities you will identify areas of risk. Actions need to be identified and through regularly monitoring and evaluation the risks can be managed and ultimately be turned into an opportunity. Key to this is your staff, they are the ones that will know where the risks are. So their engagement is key. To help, there are a number of things you can do - run workshops to engage with staff and suppliers to explore areas of risk or develop interactive intranet sites showing case examples of good practice. Internally you could build in opportunities for promotion of good practice at staff meetings; involve staff in reviewing company policy and procedures to ensure values are consistent from procurement, recruitment, training, appraisals to exit interviews. Through consulting and involving staff more in the running of a business; and provide feedback questionnaires for employees, customers and suppliers you can demonstrate how the organisation is living its values.

Is CSR worth it?

Like all actions CSR requires an investment. The business case can be made through cost/benefit analysis on many CSR interventions e.g. on improving energy efficiency. However, how do you value your reputation? If you doubt the role of the CSR in risk management there is one other consideration. The EU is watching closely the implementation of the Operating Financial Review (OFR) as part of company law in 2005. This requires UK business to formally report on issues that are material to the business, depending on the company this could include CSR issues. In this way it is envisaged that non-financial reporting such as CSR reports will be incorporated into mainstream company reporting that is audited. If successful, it may be adopted across Europe and that will mean all CEOs will need to consider CSR as part of their formal reporting and risk management. This may be a good enough reason for CSR to be worth it.

- Article 13 produces a guide on how to reduce risk.
- Questions to ask the board or senior management team.
- Do we have a way of managing risk?
- How do we identify and assess risk?
- Social and environmental and ethical risk can be addressed by CSR policies. Do we have CSR policies?
- Do these policies reflect the values of the company?
- Are these policies understood and practiced by the business?
- The answers to these questions should enable you to make a quick assessment of the strengths and vulnerabilities to risk in your company.

Article 13 is a specialist advisor in governance, business responsibility and sustainable development. It works with companies, governments and academic institutions to meet the growing pressure for better performance, whether it be social, environmental, ethical or economic.

For further details see www.article13.com

How corporate social responsibility can help manage risk

by Dr Paul Toyne, director Article 13.

Corporate social responsibility (CSR) is all about identifying the risks and opportunities that reduce the negative impact of an organisation by improving its environmental, social and economic performance.

Ultimately it is about responsibilities wider than just shareholders, customers, and employees that extend to communities and society as a whole. However, from my experience it is mostly borne out of enlightened self-interest to reduce the risk to reputation and the bottom line.

For example, European companies like Anglo American investing in HIV healthcare programmes for its work-force in Africa may be doing so for moral reasons, because it's the 'right thing to do', but it is also a risk strategy to ensure it has a workforce for the future. Royal Dutch Shell's commitment to high environmental standards is not just about improving its environmental performance but also about managing the risks to their reputation if a disaster were to occur and the impact it would have on its licence to operate.

These approaches should not be condemned as they are seated in realism and are positive actions that improve situations. So just how can CSR help manage risk?

What are the main areas of risk to a business?

Corporate reputation, governance and ethics are all issues associated with CSR that have made the news headlines in the last few years. Examples include - the ethics of arms and defence deals, 'fat cat' director salaries and shareholder activism, illegal workers and supply chain issues, the financial scandal of Parmalat, and the famous collapses of Enron and WorldCom and false accounting. These are all topical issues that have demonstrated areas of risk to companies. All are important issues in their own right.

By answering the following questions I hope to demonstrate the important role CSR has within a business in identifying and addressing risk. What is risk? What do words like governance really mean? Why are they headline news? And what can CSR really do to help?

Risk

Managing and controlling risk is key to running a successful organisation. Risk can be defined as the possibility of suffering harm or loss. Within the area of CSR there are four general areas of risk.

Firstly the supply chain, country specific such as human rights abuses, or company specific risks such as pollution.

Secondly, operational risks which cover compliance with regulation, employee satisfaction and dangerous operations.

Thirdly, product which includes covers use of hazardous raw materials (e.g. nuclear energy) waste during production, and health and safety issues.

Lastly there is societal expectations, covering what society demands of a business in the 21st Century.

Governance

Good governance will ensure both current and future risks that affect all stakeholders are identified and that the appropriate internal controls (accountability mechanisms, systems and procedures) are used to mitigate, and in some cases, turn risk into opportunities. Poor governance reflects a culture where employees are not involved in the way things are done, or even worse, one where corporate governance (the way a business operates and the role of the board) procedures do not exist and whistle blowing becomes necessary. Very much connected with the issue of governance is the culture of the organisation.

Company culture

Providing an enabling culture whereby staff feel that they can ask inquiring questions about the running of the business or individual employees activities is desirable. This is because it acts as a safeguard and allows problems to be addressed early on, so managing risk. The demise of Baring Bank through rogue trading 10 years ago is an excellent example of what happens when poor governance and weak management allows staff to operate in isolation without anyone checking.

Corporate reputation

An organisation's reputation is built on its relationship with staff, customers, suppliers, investors and the community they operate within. These stakeholders are the very same that CSR activities seek to involve. This is why CSR can help maintain and enhance reputations. A negative reputation can lead to a drop in share value of the business, a decrease in profitability as customer and staff loyalty drops, a decrease in business opportunities (as potential partners question the trust and integrity), a decrease in new investment as the business is seen as a greater risk, and even increased insurance premiums.

How to manage risk

First the risk needs to be identified. This is where a company's culture is important. Having an organisational culture of accountability, transparency and staff involvement (inclusiveness) is beneficial as staff and suppliers can act as risk detectors and feedback on early warning signs. Here the human resources department has a role to play ensuring the culture of the organisation is one where there is a planned process that captures this

feedback.

An example of this type of approach is that of Roche, who worked with Article 13 in identifying dilemmas for employees involved within the drug development side of the business.

The pharmaceutical industry is a highly legislated and regulated environment with numerous industry standard operating procedures (SOPs), guidelines covering all aspects of good practice in clinical trials, and review processes through external ethics committees. Through facilitated workshops the dilemmas experienced by Roche employees in everyday work

Dr Paul Toyne, director, Article 13

that were not covered in SOPs or in Roche's own corporate principles were identified and their impacts analysed. The findings revealed that the organisation could be at risk if staff did not have a planned way to deal with dilemmas e.g. an ethical concern became a full-blown issue if left unmanaged. The need for some type of internal support for staff on ethical decisions and responsibilities became apparent. Staff did not want another 'policy' but a process that enabled staff to engage with the issues and resolve them. From this debate a process that dealt with four key themes: patients, colleagues, trust and integrity was developed. The approach was trialled and human resources staff and trainers have been key to integrating the approach into training and induction sessions. Through trialling, measures of success have been developed so that its implementation can be monitored and the approach improved. The strength of this work was the governance and buy-in generated by participation alongside the flexibility of bringing in facilitators and champions of issues in society.

This example demonstrates the emergent 'involve me' culture reflected in the wider corporate social responsibility agenda in which stakeholders, in this case employees, are working in partnership with their organisation to deliver an environment where risk, or indeed opportunity, is identified and managed.

'De-risking'

Everybody within the company from the directors to the staff at the 'coal face' has a crucial role in the development and implementation of CSR within an organisation. The development of CSR policies needs the strategic input from senior managers with input from all stakeholders involved, as without their support, implementation will simply not happen. It is the implementation of CSR policies that acts as a mechanism to support employees facing 'risks'. By first benchmarking your organisations performance on CSR activities you will identify areas of risk. Actions need to be identified and through regularly monitoring and evaluation the risks can be managed and ultimately be turned into an opportunity. Key to this is your staff, they are the ones that will know where the risks are. So their engagement is key. To help, there are a number of things you can do - run workshops to engage with staff and suppliers to explore areas of risk or develop interactive intranet sites showing case examples of good practice. Internally you could build in opportunities for promotion of good practice at staff meetings; involve staff in reviewing company policy and procedures to ensure values are consistent from procurement, recruitment, training, appraisals to exit interviews. Through consulting and involving staff more in the running of a business; and provide feedback questionnaires for employees, customers and suppliers you can demonstrate how the organisation is living its values.

Is CSR worth it?

Like all actions CSR requires an investment. The business case can be made through cost/benefit analysis on many CSR interventions e.g. on improving energy efficiency. However, how do you value your reputation? If you doubt the role of the CSR in risk management there is one other consideration. The EU is watching closely the implementation of the Operating Financial Review (OFR) as part of company law in 2005. This requires UK business to formally report on issues that are material to the business, depending on the company this could include CSR issues. In this way it is envisaged that non-financial reporting such as CSR reports will be incorporated into mainstream company reporting that is audited. If successful, it may be adopted across Europe and that will mean all CEOs will need to consider CSR as part of their formal reporting and risk management. This may be a good enough reason for CSR to be worth it.

- **Article 13 produces a guide on how to reduce risk.**
- **Questions to ask the board or senior management team.**
- **Do we have a way of managing risk?**
- **How do we identify and assess risk?**
- **Social and environmental and ethical risk can be addressed by CSR policies. Do we have CSR policies?**
- **Do these policies reflect the values of the company?**
- **Are these policies understood and practiced by the business?**
- **The answers to these questions should enable you to make a quick assessment of the strengths and vulnerabilities to risk in your company.**

Article 13 is a specialist advisor in governance, business responsibility and sustainable development. It works with companies, governments and academic institutions to meet the growing pressure for better performance, whether it be social, environmental, ethical or economic.

For further details see www.article13.com