DEDICATED TO MAKING A DIFFERENCE

Beyond Reporting:

Creating business value and accountability

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About this project

Executives from the purchasing agent to the CFO are currently held accountable for a variety of outcomes to a variety of stakeholders. This project has explored how leading companies are beginning to translate accountabilities between the seemingly alien worlds of sustainability and business value:

- Norwegian asset management company Storebrand has appointed non-management employees to the Board to promote transparency and trust…
- Aluminium manufacturer Alcan has used external pressure for compliance with Sarbanes-Oxley to drive an enhanced internal culture of transparency and accountability over financial reporting…
- Australian bank Westpac has changed the organization's service culture so that customers only need to 'Ask Once'…
- Professional services firm PricewaterhouseCoopers LLP has brought together human resources and sustainability professionals to ensure their people (its core resource and most valuable asset) are recruited, developed and retained to best meet the changing needs of its marketplace…
- And biotech firm Novozymes has engaged with a broad range of stakeholders to deal with consumer antagonism towards genetically modified organisms (GMOs) and to develop new products that meet their concerns.

We have looked at how *amplifying* existing accountability mechanisms can accelerate sustainable development objectives. This includes illustrating how functions can work collaboratively, and the added value this connectivity brings.

The WBCSD Accountability and Reporting Project started in March 2002 and has involved more than 60 member companies through three inter-related work streams:

Framework (the theoretical)
A conceptual framework that helps companies understand the extent to which sustainability can be part of and integral to broader business accountability and value creation.

Practice (the internal)
A series of case studies and interviews with more than 30 representatives from different companies that show how accountability for sustainable development is implemented across business functions and how it can be used to build value.

Consultation/engagement (the external)
Discussions throughout the course of the project with non-business players such as academics, investors and non-governmental organisations (NGOs), to test learning and to benefit from others' research, opinions and input. This work stream also looked at how existing templates for accountability, such as the Global Reporting Initiative, can help companies to navigate this agenda. This included developing tools that make sense of the myriad sustainable development codes, guidelines and frameworks.

Executive Summary

The crisis of trust in business is impossible to ignore. Across 21,000 people surveyed by GlobeScan at the end of 2003, non-governmental organizations (NGOs) were once again the most trusted, and global companies the least.

This crisis has spawned a myriad of calls for corporations to be more 'accountable'. For some people this notion of expanded accountability is integral to sustainability, but to many in business it is often confusing and poorly targeted. As one WBCSD member put it: 'Accountable for what, and to whom? Who cares? And what happens if we do nothing?'

Worse still, the formal drive to make companies more accountable – through mandatory compliance with legislation such as Sarbanes-Oxley and the EU's Transparency Directive, or voluntary compliance with guidelines such as Global Reporting Initiative (GRI) and International Organization for Standardization (ISO) – is not providing workable ways to help business inspire confidence among stakeholders. Furthermore, because few companies feel they are getting business value from their efforts to satisfy this plethora of 'accountability codes', senior management and investors are growing restless.

In discussions with more than 60 WBCSD member companies, numerous accountability specialists and investors, one simple truth has emerged: there is no magic bullet to make sense of these codes, no simple way to restore trust. But successful companies are finding that they can use accountability codes, standards and other instruments to help understand the complex relationship between accountability, sustainable development and their core business strategies.

Without this understanding the whole discussion will remain locked in a vicious circle. Companies will miss the value in accountability and sustainability – such as improved risk management, lower cost of capital and improved staff retention. And external stakeholders will believe that companies are not taking these things seriously.

This report is about breaking the deadlock. It explores how leading companies are beginning to unlock value by taking a broader view of what they are accountable for, and using that knowledge to rebuild trust and strengthen their ability to respond to investors' perennial question: 'What are you going to do when something happens that you didn't expect?'

Successful companies will:

- Articulate their own vision of accountability and sustainability, and embed it within core business strategies to create value;
- Use accountability codes proactively as tools to change mindsets about the relationship between value creation and sustainable development – not simply being reactive for the sake of compliance; and
- Make accountability and value creation mutually reinforcing throughout the enterprise, integrating sustainable development across functions rather than creating a specialist silo.

1 Why think about accountability now?

The Challenge

The crisis of trust in business is impossible to ignore. Across 20 countries surveyed by Globescan at the end of 2003, non-governmental organisations (NGOs) were once again the most trusted and global companies the least. The names of some business people are now indelibly linked with corporate wrongdoing.

A string of incidents have provoked widespread public and shareholder protest, and induced legislators to pass measures to enhance corporate governance such as the Sarbanes-Oxley Act and the EU 8th Directive on Company Law. Yet even with these new safeguards, who trusts business to do the right thing? Not many. Arguably, these mechanisms have done more for bureaucracy than accountability.

What sounded like a good idea has been ‘lost in translation’ between the commitment to responsibility and the regulator’s pen.

Admittedly, our collective appreciation of what constitutes good governance has broadened to mean much more than simply separating the roles of Chairman and CEO, or publishing a corporate responsibility report. Multi-lateral organisations such as the Organisation for Economic Co-Operation and Development (OECD) have explicitly recognised that corporations serve shareholders’ long-term interests better by capitalising on the vital contribution to commercial success of stakeholders such as employees and suppliers.

But still, big questions abound. One executive captured the challenge neatly: ‘Trust is what is at stake! Reporting is one vehicle: what are the others? Accountability: To whom? For what? Who cares? What happens if we do nothing?’

It is easy to see the drive for greater corporate ‘accountability’ as yet another assault on the freedom of companies to operate, a compliance burden to be discharged at minimum cost. But as the examples in this report illustrate, a growing number of forward-looking companies are beginning to use this pressure to drive their businesses in a different direction, building renewed trust and developing new commercial opportunities as a result. As one WBCSD member company put it, this is about ‘licence to grow’.

The Opportunity

This report is about looking beyond short-term band-aids to find longer term solutions that make business sense. While initiatives such as the UN Global Compact and the Draft Norms on Human Rights attempt to hold the corporate world to account for non-financial behavior, the hard commercial reality is that 'sustainable development issues' increasingly shape today's business environment. Many business leaders must have felt a twinge of empathy when CEO Phil Knight said during Nike's public relations crisis: 'The Nike product has become synonymous with slave wages, forced overtime and arbitrary abuse.'

A new approach to accountability can help begin healing the trust wound, and help companies to move forward to create value, not just avoid destroying it. In today's global and increasingly saturated marketplaces, developing a better way of doing business offers a chance to open up new business opportunities. If value protection comes from 'doing less bad', then value creation is about 'doing more good'.

Mounting evidence indicates the value of getting accountability right. Analysis by research firms such as Innovest shows that companies which understand and act on their responsibility to society achieve better shareholder returns – whether they are in textiles, power generation or auto manufacturing. Equally, empirical research by Deutsche Bank London has suggested a 'strong and positive link between corporate governance and share price performance'.

Generating commercial advantage from accountability requires a significant shift in thinking to understand value opportunities. An increasing number of companies are moving beyond seeing accountability as a block to doing business, or even as a worthy sideshow, and are beginning to derive real commercial value from a more accountable way of doing business.

This report tells the stories of some of these companies. Many have found that a better connected organisation is an obvious place to start and are unlocking the value buried in the sustainable development 'silo' to create opportunities that business leaders can actually connect with. The premise is simple: effective translation can build both sustainability and commercial opportunities.

2 The 'new' accountability

Businesses, and the people within them, are entirely comfortable with being held to account for profits by investors, legal compliance by regulators, or quality and timely delivery by customers.

But what is equally clear is that the traditional view of what businesses should be accountable for, and to whom, is failing to equip corporations with the tools they need to survive and prosper. What we have found in talking with more than 60 leading organisations is that companies are beginning to explore how a broader take on accountability can build trust and turn the burden of demands for better governance into opportunities.

This is about new ways of looking at accountability – beyond financial accountability as the sole route to create shareholder value. The 'new' accountability focuses on connecting people in different ways, and getting organisations to think and act differently, in a way that builds shareholder value.

Accountability can be about expanding your horizons to expand your bottom line. It can help companies to move from a narrow view of responsibilities to capitalising on a broad range of relationships. Accountability should be about meeting stakeholder expectations while enhancing the performance of your company. It can deliver added business value while enhancing the position and perception of the company within wider society.

This is not something that will happen overnight. Companies need to define what accountability means for their business as a first step to developing value.

There are five key questions that help companies better understand what accountability means for them, and where the potential opportunities lie:

1. *Who* is accountable?
2. For *what*?
3. To *whom*?
4. Through *what mechanisms*?
5. With *what outcomes*?

1. Who is accountable?

Companies are accountable at different levels, by role, function, hierarchy and geography. Take the example of a human resources director who said during this study: 'We do a lot to encourage employees to take responsibility for the way the company operates. A good example is our whistle-blowing initiative which has been set up and is run by an independent external body.'

To the outside world at least, these accountabilities sometimes appear to be stacked overwhelmingly in favour of financial performance, with incentives aligned accordingly. In reality individuals find themselves accountable for all manner of things precisely because they do affect business performance. So a plant manager might feel the need to be accountable to local communities for air emissions so that he or she can maintain good relationships and thus be able to keep the plant running. As one supply chain manager said during this study: 'We are so closely integrated with local communities where, if we don't do the right thing, it is felt immediately inside the firm.'

Both examples illustrate why the way in which individuals see accountability is critical to creating business value. If the supply chain manager had delegated accountability to a specialist sustainable development team they might not have identified new opportunities to source materials from lower cost or better quality suppliers. Equally, if they had not worked with the sustainable development specialists they might not have realised that local communities had something to offer in the first place.

Companies increasingly recognise that to build real opportunities they need to enable different functions to work in a connected way – something we explore in more detail in Chapter 3.

2. Accountable for what?

Accountability is often interpreted in a defensive, almost negative, fashion – in the sense of 'being held to account'. While this is an essential part of accountability, it has a backward-looking, answering-back flavor that may help to protect value but ultimately limits its creation.

Expanding this notion (which until now has largely been a legacy of financial and legal requirements) the 'new' accountability encompasses social and environmental performance, as well as broader economic impacts. Responding effectively to these non-financial issues has demanded greater transparency and openness.

But there is also a view that companies need to do more than merely answer for past performance and decisions. In fact, new corporate governance requirements explicitly ask for a forward-looking approach. For example, the new UK Operating and Financial Review (OFR) will require companies to report on how management of non-financial issues may impact the business. Similarly, the King II code in South Africa says: 'Accountability implies acceptance by the company of its responsibility for any decision or course of action adopted by it, the consequences thereof, and a commitment to resolving any issues that arise as a result.'

And herein lies an additional challenge: to have sufficient confidence to provide this forward-looking approach to governance, companies need increasingly robust, yet broad processes. A compliance driven response is limited in its ability to identify issues that may destroy or create value. Would Sarbanes-Oxley help a food manufacturer understand that obesity was critical to the future of its business, or a mobile phone provider predict that it could build success on technology to bar adult content?

The Denmark-based company Novozymes believes that a broader view of accountability offers the potential to learn from stakeholders, not just communicate to them.

Its business sits in the highly specialist world of industrial enzymes, using genetic engineering to develop innovative products. Laws and regulations guide the company's actions, but this is a controversial area, and as a result Novozymes faces difficult issues around consumers' right to know about genetically engineered products that go into their food and other consumables.

To retain its 'licence to operate', Novozymes recognizes the importance of being open about technology and product development with its stakeholders – society, politicians, authorities, NGOs, customers and investors. It has developed triple bottom line reporting to aid transparency. But increasingly it is focusing on engagement and responsiveness through stakeholder roundtables and has been able to use its learning from stakeholders in the public policy debate on bioethics.

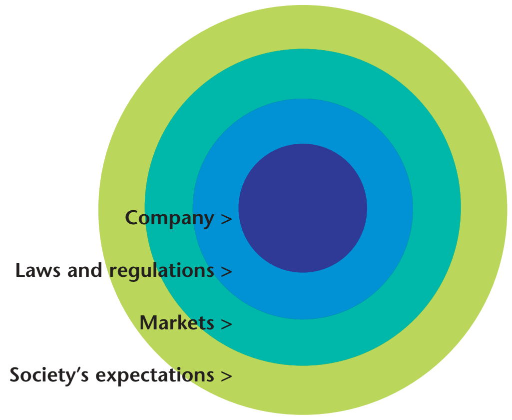
Novozymes has used this learning to innovate and to market its new products, by continuously developing internal procedures and strategies that reflect stakeholder expectations about its business.

3. Accountable to whom?

The corporate governance reforms of the past few years, backed up by increased shareholder activism, have helped to keep boards on their toes. Power has shifted from the corporate boardroom to society and the supply chain, as businesses have become networked organizations, subject to multiple forces. The conventional audiences have been joined by wider interest groups: specialized socially responsible investors, employees, NGOs, local communities, assessment/ratings bodies and agencies, customers and competitors.

However, the drive for stronger governance has primarily been identified with short-term financial interests, and this threatens to overwhelm other non-financial stakeholder interests and ultimately to undermine the longer term sustainability of shareholder returns it is supposed to protect.

Spheres of influence



Mapping accountability: Spheres of influence

Within a company, no manager is an island, operating without support and interaction inside and outside, without inputs to aid decision-making or concern for the impact of decisions. Managers are supported by and influence company practices, strategies and values.

There are many influences on a company. Individuals and companies respond to local, national and international laws and regulations, which can both protect and constrain freedom to operate. Increasingly, stakeholder expectations for corporate behaviour go beyond strict compliance. While broad societal expectations are usually informal (although they are being codified in international agreements such as the OECD Guidelines) they can be powerful influences on companies to go far beyond the letter of the law. Companies are also subject to market pressures and opportunities, including financial markets. The markets may reward certain products and penalise others through the exercise of consumer preference. Thus influencing shareholders' willingness to invest.

The 'spheres of influence' (above) and the accompanying table below provide a useful model to help companies understand who they are accountable to, how different stakeholders might influence their business, and ultimately, to think about who is best placed to manage those accountabilities. It is important to understand how these influences impinge on a company and how they will change from country to country, culture to culture, and year to year.

Mapping accountability: Three case study issues – and potential business benefits

	Bribery	Environmental Impacts	Diversity & Discrimination
Who is primarily accountable?	Finance, Legal	Facility/operations or EHS department	Human resources
Accountable for what?	Actions of staff, policies and company practices	Emissions and waste, resource use, transport, product impacts	Recruitment and retention policies, practices and performance
To whom?			
Company	Audit committee, Compliance staff, employees	Board, Employees	Board, Employees
Laws & Regulations	Governments	Regulators, government agencies	Regulators, government agencies
Markets	Customers, suppliers, investors	Customers, suppliers, investors	Customers, suppliers, investors
Society	Local population, politicians, NGOs	Local population, politicians, NGOs	Local population, politicians, NGOs
Through what mechanisms	Company Code of conduct, whistle blowing Laws e.g. Foreign Corrupt Practices Act, OECD Anti-Bribery Convention Partnerships e.g. Extractive Industries Transparency Initiative	Internal metrics, structures and processes Reporting to regulators/ agencies Public reporting and engagement	Diversity policy, metrics, structures and processes Reporting to regulators Public reporting and engagement
Potential positive outcomes	Reduced risk of fines and blacklisting Win business because of clean reputation Lower cost of capital Better staff recruitment and retention Learn how to do business better	Cost reduction Better risk management Improved reputation Licence to operate Process/product innovation	More competitive in war for talent Increased employee motivation Improved reputation Benefit from cultural learning
Who might generate additional value?	Marketing, Human resources	Finance/strategy, R&D	Operational line management

In particular, the last line of the table begins to illustrate how different functions might be able to open up increased value creation opportunities if they can be helped to see accountability in a new light. This is where value hangs in the balance across the organisation: created by understanding how expectations are changing, or eroded by failing to see change coming.

The reality is that accountability is multi-layered. All managers have accountabilities internally and may also need to meet sector or professional standards or norms, laws and regulations. But they also have to understand market demands and in many cases respond to pressure from non-governmental organizations or other ‘outsiders’ exerting significant influence.

Equally, different functions are likely to ‘own’ different relationships, relating to several different spheres of influence around a particular issue. For example a human resources director will be accountable internally for developing the skills of the workforce, but will also need to be able to respond to the market in the context of company reputation and the ‘war for talent’.

Not everybody needs to be involved in managing accountabilities relating to each of the different spheres, or every issue the organisation faces. Rather, the key to unlocking value lies in bringing functions together in a way that makes the most of existing strengths, enables learning and develops new ways of thinking about the way to do business.

3 Creating value:

Lessons from the leading edge

If we accept that business today is falling further and further behind in the trust stakes then surely the new raft of accountability codes will fill the gap? The problem is that to date many of these mechanisms (regulatory frameworks, governance systems and reporting) have not delivered the desired trust, so why would new ones deliver any more – let alone enhanced business value?

Few companies today embrace a broader view of accountability in the way they have used total quality management, business process redesign or other comprehensive approaches to drive shareholder value. Few see transparency and engagement as ways to develop more effective core business strategies, although an increasing number are grappling with what this might look like.

There is a need to revisit the framework for accountability that companies have pursued, to understand why it is failing to create the trust they so sorely need.

Companies have adopted and adapted these mechanisms to deliver greater transparency on non-financial issues. But as yet it seems that these words are not translating into the actions that shareholders value. A recent assessment published by the UK-based professional association AccountAbility concluded that:

> Stakeholder engagement is failing to produce real learning to help companies innovate and drive changes in business strategy;
> Governance mechanisms need to embrace the broadening accountability agenda, and lead to decisions which change corporate behaviour;
> Business strategies need to be aligned to sustainable development;
> Performance management needs to include incentives aligned with sustainable development policies and goals;
> Independent assurance needs to add more value; and
> Public reporting needs to improve dramatically to become more useful and credible.

These conclusions are supported by the experiences of WBCSD member companies. In this chapter we explore how companies can address these shortcomings by looking differently at ways to deliver accountability. Most companies are obsessed with demonstrating accountability, through reporting for example – rather than figuring out how new insight can help them do business better. Value will be delivered through a paradigm shift in thinking rather than just a new set of tools and processes, and this chapter explores five new ways of thinking to help companies create value from accountability.

How can change be achieved?

We have identified five fundamentals for creating value from accountability:

1	2	3	4	5
Understand what drives value in your business;	Recognise that different people are accountable for different things;	Connect the functions that contain identified value drivers;	Leverage the effort that is going into straightforward compliance; and	Tell people what you think accountability means for you.

1. Understand what drives value in your business

Commercial performance is the responsibility of all functions. It cannot be achieved without strategic connection between functions. Accountability should be viewed in the same manner. By bringing together sustainable development and other functions, companies can generate better market information and transform what would otherwise be seen as a back-office compliance burden into value-creating opportunity.

Experiences of WBCSD member companies PricewaterhouseCoopers LLP (PwC) and Storebrand demonstrate how organisations can tailor accountability and sustainability efforts to their specific value drivers. PwC (one of the world's largest professional services firms) has recognised that as a professional services provider people are its most significant asset. So the firm's accountability and sustainability efforts are focused largely on making sure it has access to the best and the brightest staff, is able to develop and retain them in the most cost effective way, and that they are well-matched to the changing demographics of PwC's marketplace.

Storebrand, a Norwegian pension, insurance, banking and asset management group, operates in a society where sustainable development is ingrained in the culture. So when the company lost its CEO due to a perceived financial irregularity it set about embedding a broader sense of accountability across the company. This has been structured around sustainability, which it believes can help to build group cohesiveness to help people get through difficult times.

Companies need to question what they are doing to get value from accountability. What is it really achieving? Perhaps new markets are being accessed, existing markets are protected or the company is in a better position to attract talent. During this study one company said: 'Because of our good relationship with government we have been invited to contribute to public policy consultations, with far-reaching consequences.'

Storebrand

Storebrand, the Norwegian financial services company, set about embedding a broad sense of accountability across the company, to rebuild cohesiveness following the departure of the CEO.

The company has introduced a number of specific mechanisms to embed sustainability in business decisions. External and employee members sit on the management board as non-executives. Triple bottom line balanced scorecards are used from the level of the business unit down to the individual.

A meaningful approach to reporting has also been developed, with monthly performance reports that can be used to inform business decisions. Performance is driven by mechanisms such as employee and customer satisfaction targets. In a country where customers expect companies to act in a sustainable manner, this approach has helped to enhance competitive drivers, creating the potential for new clients and enhanced productivity.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP (PwC) is one of the world's largest professional services firms and its single most significant asset is the people who provide its services to clients. The firm's internal accountability and sustainability efforts are focused largely on its human resources.

In order to determine how sustainability could be more integrated in core business functions and existing accountabilities, PwC sustainability practitioners conducted interviews with senior leaders in diversity, ethics and human resources, as well as with the Global Chief Executive Officer. They wanted to determine if there was alignment within the firm on these issues, and to explore the most effective ways to integrate sustainability into these critical functions, and generally within the firm.

They discovered:

- Accountability varies by region so it is important that programs be tailored to meet cultural and national norms. People in different parts of the world understand, accept and implement accountability in different ways. In the US, PwC's newly revised Code of Conduct was clearly seen as a necessary and welcome codification of acceptable behavior. Not so in Europe, where some saw it as unnecessary, because they felt that a written ethics code was superfluous to define behavior that was taken for granted – i.e. ethical behavior. Whereas the US firm gave mandatory testing on the Code to ensure it was understood, one of the European groups brought in a philosopher to discuss and debate its meaning.
- One-on-one dialogue, if possible at a peer level, is highly effective in finding common ground between sustainability and existing accountabilities. At PwC the sustainability experts found much common ground and new appreciation for their colleagues' jobs. When HR leaders began to see the ways in which their agendas could be strengthened and enhanced by integrating sustainability, and saw how sustainability could help them avoid risks and identify opportunities, integration became a relatively easy matter.
- Getting the support or at least the involvement of the CEO is very helpful in obtaining cooperation elsewhere within the company. Sustainability professionals will have better luck with functional leaders if they know the CEO is supportive of the effort, as was the case with PwC, actively participating in the project.
- Having an outsider – someone from a peer company, a consultant or a customer – involved in the discussions can provide perspective and credibility.

The business case is paramount for managers, but cannot always be demonstrated easily. But sustainability is also about leadership and if your company, or a function within it, wants to be seen as a leader, this can be a persuasive case to make. Risk management is also a persuasive motivator.

2. Recognise that different people are accountable for different things

The spheres of influence model in Chapter 2 illustrates the range of pressures that companies face. But clearly the reality is far from linear – these influences are exerted in different ways on business functions, and even where expectations are aligned, a function's ability to respond differs. This also means that business functions can use the interactions of each sphere of influence to build value in different ways.

For one human resources director, this presents a major challenge: 'Competency frameworks are not working – not just [here], they don't work anywhere. [We] now assess the contribution and leadership of the individual…it is tailored to your role and capability to create and protect value. It is always focused on the levers you have in your hands.'

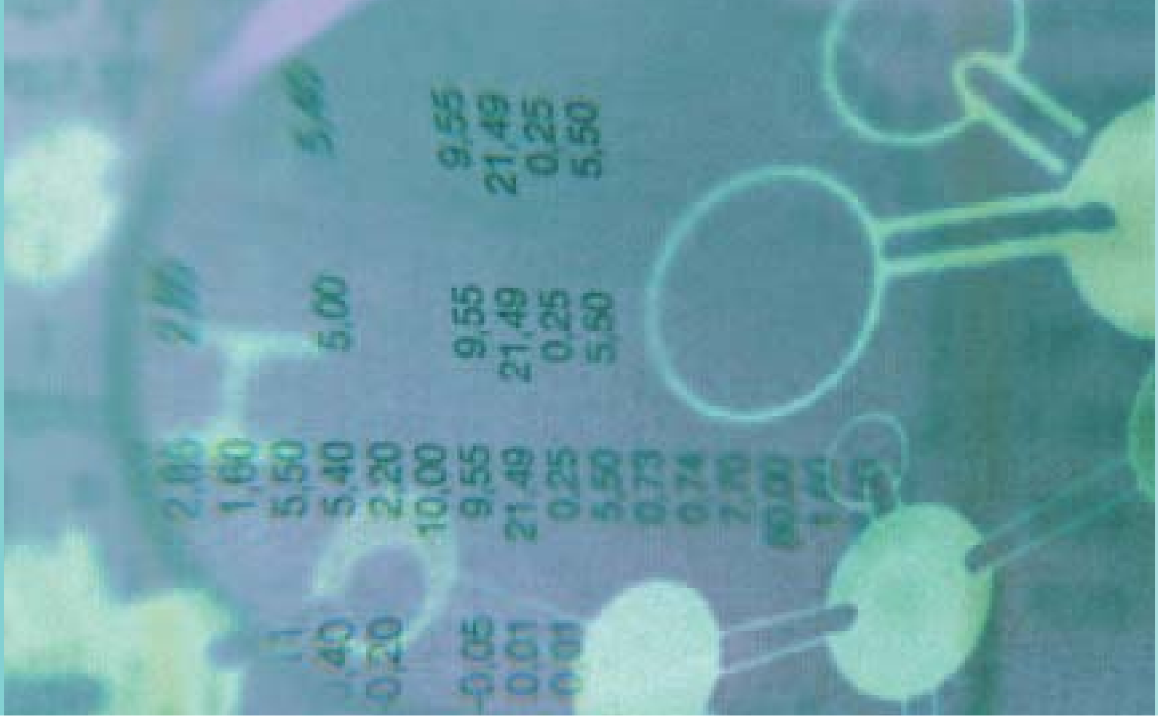
To help individuals understand and then build value from a broad sense of accountability, some companies have introduced a broader framework for individual performance assessment. Another HR director said: 'I would say between 15 and 20 per cent of employees have sustainability criteria as part of their appraisals, and this would represent at least 10 per cent of a person's bonus. Perhaps another 20 per cent have project-based sustainability criteria.'

Helping employees to understand how the spheres of influence affect them directly, and connecting their world with those of their colleagues, can help companies to recognise that different people are accountable for different things. In this way, they can understand where responsibilities could and should sit across functions and when it is necessary to collaborate. This is the first step to creating value.

Research undertaken for this project by the Ashridge Centre for Business and Society examined how five specific business functions think about accountability – and how they can create more business value by connecting with each other (see below).

Mapping accountability: Five functional roles – and potential business benefits from connecting them

Who is accountable	**Supply Chain Management**	**Human Resources**	**Product development/Sales**	**Finance**	**Public/Corporate Affairs**
Accountable for what	Risk Management Product Responsibility	Employee recruitment and retention	Competition Product Responsibility	Fiduciary Responsibilities Reputation	Reputation
To whom	Management Suppliers Standard Setting Bodies NGOs Competitors	Management Employees Wider Business Community Institutions Regulators	Corporate Affairs International Agencies Regulators Competitors Customers Media NGOs	Shareholders Finance Directors Management The Market Competitors Investors Shareholders Assessment Bodies Regulators	Management Employees NGOs Advisory Panels Competitors Wider Business Community Institutions Regulators
Through what mechanisms	Greater role in strategy Audit Training Standards/ Monitoring/ Compliance Establishing working relationships	Peer learning Training and development Creating culture amongst employees Leadership	R&D Stakeholder Intelligence (customer feedback, benchmarking)	Analysis Investor surveys Annual General Meetings (AGMs) Disclosure	Connecting business functions and management with stakeholder concerns Relationship building
Cross-functional Connection	Sales Marketing Corporate Affairs Product Development	Corporate Affairs Marketing	PR Marketing Corporate Affairs	Public/Corporate Affairs Marketing	All functions and units
With what outcomes	Deliver accountable supply chain through strategic embedding	Use social accountability as a marketing tool	Create more sustainable products and services	Meet broader fiduciary responsibilities	Raise company profile



3. Connect the functions that contain identified value drivers

According to the responses of the 60 WBCSD member companies involved with this project, the reality is that accountability has conventionally been treated in piecemeal fashion and cross-functional connections are relatively rare. The same can be said of the way in which companies have addressed non-financial issues and the demands of a broader set of stakeholders.

The creation of specific functions or personnel responsible for sustainable development has achieved a great deal in raising the profile of the issues. But for many companies it has also created a barrier to connecting functions and hampered a shared understanding of the value a different take on accountability can bring.

To create value effectively from accountability, companies involved in this project stressed the need to make sure all functions, operations and all levels within the business are engaged, including management and employees. If responsibility is delegated to only a few specialist staff, the potential to benefit from accountability will remain limited. Most companies agree with the view of one human resources director, who said: 'For sustainability to be fully part of your business, it needs to be part of the business model.'

But there is still a role for sustainable development specialists. With support from the top, sustainable development champions can drive the new accountability through the business – but only if they are prepared to let go, and facilitate cross-functional working in a way that makes sense to the business.

INSIGHT: A new role for sustainable development (SD) champions?

SD champions have a vital role to play in catalysing and co-ordinating change. They can help functional managers to understand and engage with new issues. In doing so, they need to appreciate the different perspectives, attitudes and concerns which exist in other parts of the company, and how the wider business builds value.

Sustainable development champions can play a crucial role in:

- Influencing key decision-makers to make sure they understand broad accountabilities in their area and have the tools to develop appropriate responses;
- Helping to develop the necessary skills and competences in managers throughout the business, so they can identify what a broader accountability means at their own level; and
- Building understanding of how to create value by integrating accountability across functions or departments.

SD champions need to approach each business function with a very open mind. Individual functions in the firm (e.g. ethics, diversity, community relations) are wrestling with problems which are not necessarily on the mainstream sustainability agenda. For example, diversity is concerned with attracting and retaining diverse individuals, but also meeting a basic business need – ensuring an adequate supply of qualified workers.

4. Build on the effort that is going into straightforward compliance

For Alcan, accountability is integral to effective risk management and supports business continuity. As such, the international aluminium group sees Sarbanes-Oxley as a risk management tool that is aligned with existing business practice. It sees the benefits of governance in establishing a consistent risk appetite and consistent practice across operations. Risk minimisation results from consistency in training, management systems, environmental, health and safety (EHS) standards, and in enabling more efficient handling of risks when they emerge.

Companies acknowledge that excessive focus on the legalistic dimensions of accountability has potential to restrict rather than promote creative thinking. It can detract from the aspects of accountability that are delivered through strategy, corporate culture and managerial behaviour.

If a company is seeking to go beyond compliance to create value and opportunities, one of the biggest mistakes is to wait for somebody else to define accountability for you. Many companies would cite Sarbanes-Oxley as an example of this.

For many companies, corporate governance is a compliance issue, and an expensive one at that. Governance could be a framework for accountability to unite and integrate business functions, not just a way to achieve compliance.

In an attempt to meet the demands of a broader set of stakeholders, companies have adopted various mechanisms. There has been a rush to produce different kinds of reports, such as environment, community, health and safety, and sustainability reports.

Many companies have developed or subscribed to codes of conduct which codify the sometimes hazy areas for which they now find themselves more widely held to account. Stakeholder engagement has also been a growth area, as companies have sought to understand new issues and address the concerns of societal stakeholder groups.

We have seen new challenges squeezed into the boxes of conventional frameworks: namely reporting and governance. These have been effective in

INSIGHT: Sustainable development reporting

There is growing belief that financial information alone is not a sufficient indicator of company health and wealth. Even traditional shareholder audiences are seeking more and relevant information, for example by establishing corporate governance benchmarks. And new audiences are seeking non-financial information that can be used for investment purposes, such as FTSE4Good or the Dow Jones Sustainability Index.

As we've already discussed, more and more companies are responding by producing annual reports that discuss their non-financial impacts and performance. This has improved transparency around certain issues and in a certain way. But from talking with investors and companies, it is clear that reporting, in and of itself, is not seen as a value-adding exercise. At business unit and operational level in particular, data collection and reporting requirements are seen as a burden.

increasing transparency but have been reactive to new demands, focused on value protection rather than integrated in value creation. Value comes from thinking differently about the way in which these mechanisms are used, characterized by their ability to promote learning, innovation and strategy development as part of business processes.

For some companies, thinking differently about accountability has enabled them to adapt existing mechanisms in ways that build on value drivers.

One example is the focus on measuring social and environmental performance – not as a funnel that solely feeds into the annual sustainability report, but instead adapting managers' overall balanced scorecards to integrate sustainability key performance indicators. This has been a successful strategy for Caterpillar: 'Initiatives that focus on continuously measuring and driving management behaviors yield a much higher return on their programs than those who leave it to chance.'

INSIGHT: Codes of conduct

Codes of conduct can be useful tools. Companies from different sectors with different risks and key audiences articulated the benefits of codes in different ways:

- Risk management tool
- Raise standards and level the playing field globally
- Deliver reputation benefits
- Internal codes can be a source of employee pride, enhancing recruitment and retention
- A framework approach to managing stakeholder relations e.g. GRI, AA1000
- Mechanism for determining and anticipating stakeholder interests and issues
- Address issues along a value/supply chain e.g. ISO14001

But there is a sense that preoccupation with code compliance can blind managers to the potential for value creation. Any code, whether internal or international, should help to achieve the required level of performance, and can facilitate learning across a company. But codes are largely static, which can limit their ability to help companies better understand changing expectations and learn in a way that can inform strategy and behaviours. WBCSD companies felt that it is the framework within which codes are used that determines their value, and came up with a number of success factors:

- Being a signatory is not enough – the value lies in the interpretation and implementation of the code, adapting the framework or objectives and applying them to company, not blindly ticking boxes;
- Engage internal and external stakeholders in developing or updating an internal code to ensure it delivers value;
- Buy-in from senior manage-ment is necessary to ensure the code can be used as a tool for change management;
- Communicate through existing management and performance channels to embed the code;
- Introduce a code only where it is the most appropriate tool – too many codes can produce an over-reliance on systems and standards; and
- Create your own code if it is more appropriate – don’t feel obliged to become signatories to external codes which are of limited use or applicability.

5. Tell people what you think accountability means for you

The concept of broader accountability must be clearly communicated in the context of immediate business imperatives. Managers will look for guidelines which relate to their own responsibilities and which make clear what they should do differently.

An OECD representative involved in this study said: ‘What business has done to date simply hasn’t been working. While engaging in good faith efforts, you need to do a better job communicating and delivering. It causes big problems not only for multinational enterprises, but also for those trying to push liberalization.’

Internally, communication is central to engaging different functions with each other, and with a different set of issues. Externally, investors are looking for companies to communicate better about how they are improving business performance and creating value as a result of a broader understanding of accountability.

Another WBCSD member company illustrates the dilemma that companies face: ‘Mid-level managers tend to have the shortest time horizons, partly because they are under pressure to meet short-term targets but also because they may believe the business is equally focused on the short term. In fact, most CEOs are trying to manage through the short term to create the long term and it is important to get this across to managers worried about short-term costs.’

In another example, Dow Chemical has used its Dow Corporate People Strategy to establish expectations of the company, the business and functions, leaders and employees, and establish what it feels its accountability priorities should be. These are:

- The ability to attract and retain the talent to succeed;
- The need for continuous learning by everyone;
- A focus on performance excellence;
- A culture where diversity and inclusion is embraced; and
- Personal leadership at all levels.

Leadership is essential. For companies such as Westpac, the impetus for change originated at the top, and was reflected in the proactive commitment of the Chairman and establishment of a board level social responsibility committee charged with delivering the company’s new strategic vision.

Many companies have used disarmingly simple messages to communicate how they see accountability, such as 'the Novozymes Touch' and 'Doing the Right Thing' at Westpac. In other companies, such as Storebrand, the language of sustainability is well understood and awareness of sustainable development issues is quite high, but this is unusual. Most companies agree that effective communication by strategic leaders helps the rest of the business to start thinking about how they contribute to achieving that vision. In BP, for example, some managers argue that the opportunity to listen to Lord Browne's speeches to outside audiences gives them the best understanding of where the business is heading.

Westpac

Australian bank Westpac has been rebuilding since suffering financial problems in the early 1990s. It has tackled that task against a backdrop of unprecedented consumer pressure on the industry over branch closures, lack of transparency, and bank charges. A new chairman provided the necessary leadership to raise the profile of corporate responsibility and to differentiate the bank from its competitors by emphasizing the employee/customer interface. The company also sought to address and capitalise on the changing demographics of Australia, especially its ageing workforce, to incorporate this employee base in the drive for enhanced customer accountability and satisfaction. The new leadership has boosted strategic integration of accountability and helped to raise the company's profile and reputation among competitors and customers.

Drivers:

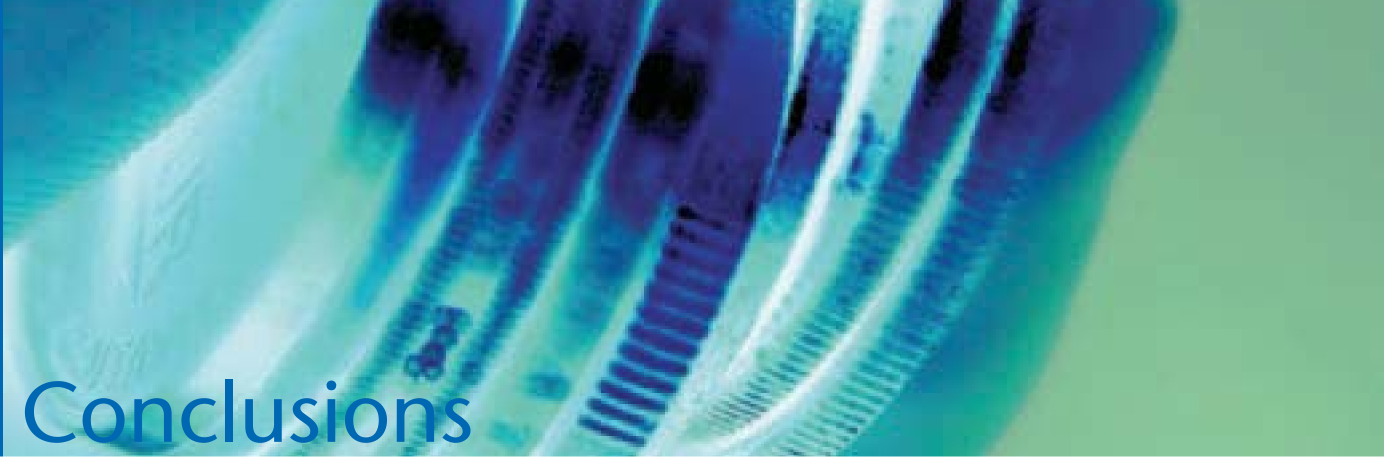
- Restructuring and rebuilding following financial difficulties;
- New leadership impetus through the arrival of the new CEO;
- Competitive drivers: ambition to increase market share, achieve organic growth in a stable marketplace, desire to distinguish company from its competitors;
- Consumer expectation – overcoming customer's negative attitudes towards banks; and
- Deep conviction that engaged employees drive customer satisfaction.

How did they do it? The company adopted a multi-staged strategy:

- Stage 1 – Corporate responsibility checklist at the end of submissions to Board;
- Stage 2 – Broadening/deepening understanding of reputation risks; and
- Stage 3 (future) – How to get "business as usual" on to a new footing.

This involved:

- Examining where change was necessary and constructing a plan to address it – both strategic oversight and operational practicalities (e.g. customers should only need to 'Ask Once');
- Engaging business functions – CEO and senior management, Corporate Risk and Affairs; HR to look at employment practices and conditions in the workplace; and Communications and Marketing to publicise the benefits for customers and the new corporate strategy in the right language;
- Recognising the value of employees: engaging with and empowering them, raising expectations;
- Creating greater workplace flexibility and changing employee dynamics to involve more mature workers;
- Devising a simple, straightforward approach to delivering improvement; use of disarmingly simple programmes such as 'Ask Once' and 'Do the Right Thing';
- Seeking and responding to feedback; and
- Ensuring what was expected of employees was understandable, transferable and achievable.



Conclusions

Corporations and the people in them have no problem about being accountable. It is far from a new idea and many are mystified by calls for 'accountability' from NGOs. But the reality is that, to date, many have focused on a narrow set of audiences and as a result, they have left shareholder value on the table by failing to turn emerging challenges from society into commercial opportunities. Worse, many are failing to leverage the millions of dollars they are spending on meeting new governance requirements like Sarbanes-Oxley, because they are seeing them solely as 'compliance issues'.

The problem is exacerbated by the frequent isolation of the very functions set up to track the accountability agenda. While sustainable development specialists in some organisations may have their hands tantalisingly close to many of the issues and answers, few have managed to translate their insights into value driving opportunities for their businesses. As a result, their commercial colleagues do not understand what they are told and are not able to frame business challenges in a way that would enable them to link with the sustainable development agenda.

But as Alcan, PwC, Storebrand, Westpac, and the other companies explored in Chapter 3 illustrate, some are starting to make these links. They are managing to translate between the currently disconnected worlds of sustainability and business value and are finding that a broad view of accountability holds the key to better connecting their businesses. After all, everybody is accountable for something, and often for different sides of the same thing (like the case of the human resources manager and the community liaison officer).

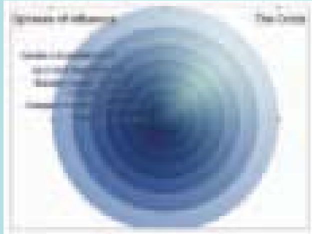
While the business case is typically paramount for functional managers, it cannot always be proved empirically. But accountability is also about leadership and if one's company wants to be seen as a leader, this can be a persuasive case to make. Finding business value in accountability demands a shift in thinking, to push an organisation through its metaphorical 'tipping point' so that enough people understand the language of sustainable development and the business opportunities it can provide.

Action Points for CEOs

- **Tell people what accountability means for you – personally**
- **Give the sustainability brief to a commercial high flyer who can connect different functions and businesses**
- **Create incentives that reward convergent, not divergent behaviour**

Action Points for Sustainability Professionals

- **Understand what drives value in your business**
- **Connect the functions that drive that value**
- **Recognise that different people are accountable for different things**
- **Leverage the effort that is going into legal compliance**
- **Let go of the SD agenda – and let others find their own solutions**



References

Please reference the following additional accountability and reporting project outputs and resources on our website: **http://www.wbcsd.org/web/beyondreporting.htm**

Strategic Challenges for Business: in the use of corporate responsibility codes, standards, and frameworks

Accountable Value: a co-chair discussion paper

Euroil in Nigola: a learning module on codes and guidelines

Accountability & Reporting: New accountabilities, new networks, new leaders….

The Orbits: Mapping spheres of influence

Accountability & Reporting Project Overview: powerpoint presentation

About the WBCSD

The World Business Council for Sustainable Development (WBCSD) is a coalition of 175 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress. Our members are drawn from more than 35 countries and 20 major industrial sectors. We also benefit from a global network of 50 national and regional business councils and partner organizations involving some 1,000 business leaders globally.

The WBCSD's activities reflect our belief that the pursuit of sustainable development is good for business and business is good for sustainable development.

Our mission

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.

Our aims

Our objectives and strategic directions, based on this dedication, include:

> **Business leadership:**
To be the leading business advocate on issues connected with sustainable development.

> **Policy development:**
To participate in policy development in order to create a framework that allows business to contribute effectively to sustainable development.

> **Best practice:**
To demonstrate business progress in environmental and resource management and corporate social responsibility and to share leading-edge practices among our members.

> **Global outreach:**
To contribute to a sustainable future for developing nations and nations in transition.

Disclaimer

This report is released in the name of the WBCSD. Like other WBCSD reports, it is the result of a collaborative effort by members of the secretariat and executives from several member companies. The views expressed do not necessarily represent the views of every WBCSD member.

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