



Citizens within corporates — parts to be played to gain value from sustainability

By **Josh Dowse**, Principal, Dowse CSP

- *Sustainability must be explicitly integrated into an organisation's policies, decision criteria and systems*
- *Different structures and models work for different organisations*
- *Cross-organisational teams and partnerships provide huge potential for solving problems and establishing relationships*

My first association with Chartered Secretaries Australia was as author of *Australian Corporation Practice* in 1990, then the recommended text for the chartered secretaries qualification course. The law was reasonably clear then, and remains so: directors have a reasonable discretion in what to consider if they are bona fide in acting for benefit the company.¹ This journal has articulated many times over how future shareholders and other current stakeholders can be considered. In the context of sustainability or corporate social responsibility, the question is no longer if one can, but how to best take those interests into account.

This article suggests how the board and other players might help ensure their firm contributes to making the communities, economies and ecologies of which it is part, more sustainable — which if done wisely is well within the firm's best interests. The menu of possible options is extensive. The article is intended to help a firm select and design the elements that might best suit its own circumstances.

There are two points I'd like you to get from it. First, working with external partners punches

above its perceived weight in delivering sustainability performance, and the reputation for that performance. Second, there is no one correct design for sustainability governance. Assuming a reasonably well-managed organisation, its proven methods of governance are a good starting point, with sustainability added to risk management, strategic planning and operational performance.

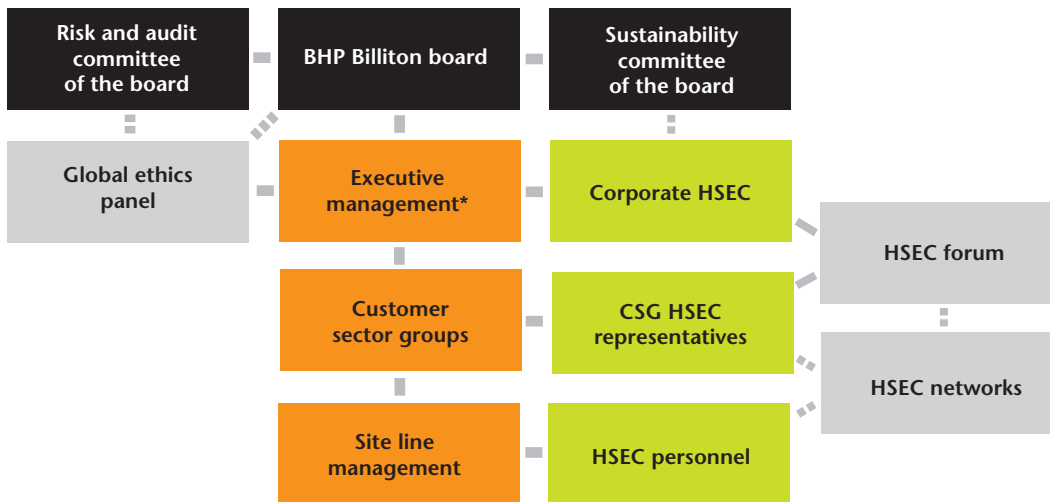
Organisational options

Rather than reinvent the wheel, I'll turn to the convenient models used by BHP Billiton in its current sustainability reports to mark out the territory. A few things are immediately obvious from Figure 1. There is engagement at the board level — not only a risk committee, but one focused specifically on sustainability. There are functional specialists that work with line management at all levels of the organisation, down to individual sites. And there are three forums through which the firm invites external people to consider sustainability issues with them — these on top of the community, NGO and government relationships that would be nurtured in the ordinary course of business.

BHP Billiton is of course a complex, extensive, and tremendously well-resourced company. Few companies would match its investment in sustainable development and the structures to support that investment. However, the scope of issues is similar to those confronting most companies, and accountabilities should be in place among similar lines — if not held by specialists, then by people with those accountabilities among their roles.

Let's look in turn at the following options, and consider how they may best be implemented:

- board and executive involvement
- the corporate sustainability function
- overseeing the sustainability function
- line performance and off-line projects
- external advisory groups.

Figure 1: BHP Billiton's sustainable development organisational structure²

* Authority to manage the business is delegated to the CEO. The CEO on-delegates authority to committees, including the office of the chief executive and the executive committee, and individuals.

Board and executive level involvement

It is possible to act credibly in sustainability with limited board involvement. The British telecommunications firm BT is well recognised for its sustainability performance and reporting, yet it has no board-level committees, and sustainability matters are raised at board level 'at least once a year'. IAG's executive built a sound sustainability strategy and delivered it to the board as a *fait accompli*. Yet the potential impact of public policy and sustainability issues on a firm's intangible value makes board oversight advisable.

Many boards allocate sustainability issues to their risk (or risk and audit) committees. The risk and audit committee is a natural place to oversee and defend the firm's approach to corporate ethics, as is the case with BHP Billiton and Brambles. In a firm's early engagement with sustainability, oversight under the risk and audit committee may help ensure that the environmental and public policy risks to the firm are reviewed with the rigour established for its other business risks. Sustainability reports may also be assured under the AA1000 assurance standard with a similar degree of confidence and under similar oversight as the familiar audit of the annual accounts and reports.

Rather than a risk committee, the board's governance committee may be the appropriate place to ensure the firm has effective structures and policies in place to gain full value from sustainability, on *both* its risk and opportunities sides, though still within the context of its corporate reputation. ANZ Bank dislodged Westpac from global leadership in the finance sector's Dow Jones

Sustainability Index for the first time in 2007, led by a CEO adamant about its potential. At ANZ, the board governance committee takes responsibility for sustainability, including the bank's relevant policies, practices, and management systems. In the US, Proctor & Gamble's Governance and Public Responsibility committee oversees organisational diversity, sustainable development, community and government relations, product quality assurance and corporate reputation. The Coca-Cola Company similarly appoints a Public Policy and Corporate Reputation Council from its board because it recognises the extent to which its brand value makes up its total worth.

Because it is so hard to disassociate sustainability or CSR issues from corporate reputation, very few companies have a board committee with an explicit sustainability or CSR name and mandate. They exist where sustainability is seen as an operating principle, as with Westpac, with an enhanced reputation a result rather than the purpose. But most of the strongest exponents integrate sustainability into broader board committees, as discussed above. The pursuit of operational sustainability and the value it can deliver falls to the executive, which typically has the greatest influence on the actions that a firm takes to manifest its sustainability approach. For example, ANZ's board supports an executive-level Corporate Responsibility Council, which provides strategic leadership for the firm's more specific efforts.

Where the company adopts an executive-level committee, its primary function may be to ensure that the firm's sustainability strategy and approach is completely consistent with its overall corporate and

The important thing is that the chosen executive is a genuine supporter of the value of sustainability. If that happens to be the CEO, the advantages are obvious. For early movers on sustainability the CEO's conviction was the deciding factor. But often a CEO volunteers from a felt need to demonstrate support or action, rather than from conviction. That's not what the sustainability team needs, and could cut off the energies of an executive with more interest.

business strategies. That is the chief concern of Unilever's executive Corporate Responsibility Council, drawn from its executive team. Allowing space for the board's committee, the executive committee might also ensure resources are available to the sustainability effort, identify and overcome bottlenecks, and judge where influence alone is not enough to make things happen between business units. Involved executives can also represent the firm on sustainability

partnerships (see under Line performance and projects). While senior executives have deep contacts with peers in their industry, sustainability offers rewarding relationships to prosper outside the industry, and in other circles.

Another effective purpose of an executive-level committee is to drive understanding quickly through the firm. Diageo is a company whose brands include Johnnie Walker, Guinness, Smirnoff and Baileys, and whose approach to corporate citizenship is understandably grounded on responsible drinking. The CEO chairs its Corporate Citizenship Committee, with another 12 members selected on rotation. The rotation ensures all corners of the organisation get direct exposure to the citizenship deliberations at the highest levels. All functional and geographic units are represented through their executive. That way, all units contribute to and learn about the major sustainability initiatives — 'communication' isn't left to the less effective channels of the communication team.

The sustainability function

While the board and executive committee may have their committees, the legwork for sustainability increasingly falls to someone in the corporate centre. This is more than sensible, but a little problematic for at least two reasons. Understanding why helps to get the balance and structure of the sustainability function right for your organisation.

First, the sooner sustainability is infused throughout line management, the more constructive it is. If the corporate sustainability function grows stronger without aiming for its own obsolescence, sustainability will remain an artifice imposed by technocrats on only semi-willing participants. For that reason, those in the

sustainability function need to be seen as supporters, influencers and capability builders. Though they will have direct responsibilities (mentioned below), these might be discharged in partnership with line managers and frontline staff. Sharing these tasks enables people to talk through why particular sustainability actions are being taken, how they relate to other decisions, and how to execute them well.

Second, there have been environmental managers in line or unit positions in most corporates for up to a quarter century. Many have been shouting 'sustainability' into a headwind for much of that time, with executive committee hearing only snippets of 'toxic compliance' and 'recycle bins' between gusts. Now that a value-based sustainability agenda is being set, people of other backgrounds may be more likely to lead the necessary compliance, culture and business changes. The process can risk long-term environmental managers feeling they have nursed something valuable in the wilderness, only to be ignored when its time has come.

With those caveats in mind, most companies now see the value in a sustainability officer (by whatever name) who must be a good generalist, to guide (though rarely lead) the sustainability effort. The article by Andrew Beatty and Evan Williams starting on p 14 of this edition of *Keeping good companies* traces the evolution of the VP Sustainability in the US, and equivalent titles in Australia. A survey of those in corporate CSR positions in Australia confirms that the roles are new — two-thirds are currently in their first CSR position.³ According to that survey, their main accountabilities include:

- community partnerships
- employee and other stakeholder engagement, including supply chain
- CSR vision, business case, research and communication
- non-financial reports and their assurance
- philanthropic sponsorships and
- liaison with external ratings bodies.

This list can soak up a lot of time, with liaising with external bodies an increasing factor for larger companies. In deciding on the size of the sustainability team, consider both the potential and delivered value, legitimate demands from stakeholders, available resources from other corporate functions, existing or potential environmental and social risks and perceived opportunities. Disappointment or indifference will flow from having too few people, too flooded by immediate demands to add value to the firm. But having too many in the sustainability function may lead to their being too independent: if they don't have to draw on others in the organisation,

their actions, priorities and decisions will be too insular, and any potential benefits of sustainability thinking severely dulled.

Notably, the integration of sustainability or CSR into a firm's decision-making and strategic processes is not listed in the research above. These are not accountabilities of the specialist, but a product of their influence in the organisation. They are the most valuable steps towards sustainability, but are impossible without executive support. If those in a bank, for instance, do their job well, as defined by the above list, their bank may have a fine sustainability record. But it may still choose to invest in sub-prime mortgages, finance the companies whose poker machines are leading to their own client's loan defaults, or finance the logging of an unprotected southeast Asian forest without taking into account either its corruption of local economies or the value of potential carbon credits. At some point, these immediate external losses will be internalised.

Championing the sustainability function

Typically, though not always, the head of the sustainability function is not part of the firm's executive committee, so must report to it and have a member of the executive committee to champion its work. This is not at all a bad thing, so long as the executive committee member has line responsibilities. If the executive committee member is a business unit manager (product or geographic) for example, that unit will be more likely to adopt sustainability thinking, and so become a test case for the organisation. At the very least, having a critical but supportive executive committee member as champion will ensure that sustainability proposals will be rigorously prepared, and appealing in line management terms.

The important thing is that the chosen executive is a genuine supporter of the value of sustainability. If that happens to be the CEO, the advantages are obvious. For early movers on sustainability/CSR (that is, before the business case was well demonstrated, and the leadership team just agreed it was the right thing to do) the CEO's conviction was the deciding factor. But often a CEO volunteers from a felt need to demonstrate support or action, rather than from conviction. That's not what the sustainability team needs, and could cut off the energies of an executive with more interest.

Another successful option is for the sustainability function to report to the CFO, as ANZ Bank has seen. Having the CFO as a thought partner for sustainability actions is a real benefit. The CFO typically has superb support and inquiry skills. Their appreciation of business value can help identify opportunities for sustainability to assist the firm's

more immediate priorities, and for sustainability proposals to appeal to the executive committee. So too will the CFO's responsibility for financial rigour.

The sustainability function may also report directly to the relevant board committee, as is the case with Bluescope Steel. Though not Bluescope's rationale, such a reporting line may be an advantage where the main sustainability issues are risk-related, and the board is seeking an unfiltered view of any concerns. It would also work well where the firm's external relationships are more than usually powerful, and the board is looking to the sustainability function for support in nurturing them. However, in most instances, it is more appropriate for the sustainability function to report through the executive committee. That helps to keep sustainability as a factor in the way the firm does business every day, rather than a compliance, reporting or relationship function outside the ordinary course of business.

It's also not unheard of in larger companies for the sustainability head to report to a leadership group below executive committee level, with that group reporting directly to the board. For example, Unilever's senior vice president for corporate responsibility reports to a Global Corporate Responsibility Council, with representatives from brand, corporate affairs, supply chain and communications functions. Unilever's board-level corporate responsibility and reputation committee has oversight over the council's activity. In this way, there is no confusion over whether the sustainability leadership reports to the executive committee or the board. The approach works well for Unilever, with the company consistently ranked highest in its consumer products categories for sustainability.

Line performance and projects

All of these sustainability players are window dressing unless the organisation has managed to add a sustainability lens to its vision and decision-making at all levels. How then can the organisation of sustainability efforts contribute to that result?

A number of elements will help. The bottom line is that sustainability is treated as one of the many factors for organisational success, and so explicitly integrated into its policies, decision criteria and performance management systems. At BHP Billiton and elsewhere, sustainability performance is included in individual and team KPIs, and linked to base and bonus pay. Westpac similarly includes sustainability measures in all managers' balanced scorecards.

What then would people be performing on? It's useful to consider two sets of actions separately: their line roles, and off-line sustainability projects. For line roles, policy guidance, leadership, training

and advisory support are all needed for sustainability as for anything else desired to be part of 'the way we do business'. Sustainability managers at the business level can act effectively here, so long as they have the support of their unit executive.

The other aspect to sustainability performance is a person's involvement in cross-organisational teams on specific sustainability actions. These actions may include research efforts on new processes to reduce the firm's environmental or social footprint, or partnerships on specific social issues, such as Unilever's Shakti entrepreneurs scheme in India, or Westpac's Cape York Indigenous Assistance Scheme. As with any other strategic firm-wide project, accountability for these initiatives rests with a project manager, responsible to the executive committee level sponsor or committee.

These teams may be purely internal, but are best if they include external agencies. Initiatives which include partners along the firm's value/supply chain are particularly effective, as they promote personal relationships which can be invaluable in identifying and solving more immediate business-related issues. A good example is BHP Billiton's partnership with Caterpillar on safety issues, an initiative that draws widely from both organisations and is having positive results for both industries. Another is the global clean cargo working group that is aiming to reduce freight emissions over the whole logistics cycle, with members including Hewlett Packard, IKEA, Nike, Coca-Cola and UPS.

The power of these project teams is that they allow people to work together who may not otherwise have the opportunity. They are occasions for personal and skills development, unconstrained by the participant's immediate work environment and perceptions. They form new relationships within the organisation, strengthening their bonds to it, enhancing their understanding of other roles, and so their potential contribution. Because the team's work is reviewed by other team members and the sustainability function leaders, different

assessments can be made. People who may not be flourishing in their usual work team may have the chance to offer the firm more, and to be appreciated for it.

As both line and project-based initiatives build in momentum, fresh sources of information and collegiate support will emerge. Until now, people in sustainability circles have been renowned for their cooperative spirit across firms. With information on sustainability now flowing fast, and competitive advantage more in mind, this legacy may be tested. But with more people being involved in sustainability within the firm, communities of support and information are more likely to flourish there.

One good example is Ford's global Sustainability Learning Committee, whose 600 members drive a website, a learning program, and the content of associated materials. These members are not part of the corporate sustainability function itself; they are drawn from all business units and line areas, as well as the expected HR and environment roles. Also in the US, Wal-Mart's Sustainability Value Network extends across regional and unit lines, but goes well beyond the firm, including academic, government, supplier and NGO representatives.

External advisory groups

Increasingly, an appreciated role in the sustainability effort has been played by a formal external advisory group. This group is drawn from NGO, professional services and academic ranks, as well as government and other links of the firm's value chain. It can have a formal role in either reviewing the firm's sustainability actions and board committee proceedings (as in the UK retailer Tesco) or in reviewing its sustainability report (as in BT, the UK telecommunications firm).

Importantly though, an external advisory group offers more than review. BT's Sustainability Panel supports 'the work BT is doing in ... scoping and developing new business opportunities based on people living more sustainably'.⁴ As with IAG's Expert Community Advisory Committee, it can help disseminate the firm's own sustainability agenda and performance, as well as an appreciation of the hurdles it may face. The panel can also be drawn on for advice on particular issues or initiatives.

The most effective meetings of the external group are those with the firm's executive committee, or a sufficiently large part of it, as the

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stakeholder panel of European cement firm LaFarge holds annually. That's where questions can be put, understandings raised, and ideas generated at the most important levels, with perspectives put without the usual internal pressures, drawn from the broadest expertise and experience.

Panel members can also give feedback as individuals, as a group, or both. For example, Alistair McIntosh, a member of LaFarge's stakeholder panel, acknowledges that the industry's competitive pressure to 'buy cheaper and cheaper' has worked against LaFarge's commitment to sustainable development in and around its plants, and against its vision of developing more sustainable building products.⁵ Through understanding other positions comes better solutions. It is clear, also, that the public disclosure of this external feedback adds to the firm's sustainability credentials. Inclusion of feedback in the report is highly regarded by sustainability ratings agencies, as are any responses to that feedback, so long as they are internally credible.

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Different organisational elements offer different strengths to a firm's sustainability efforts. The

degrees of external inclusion, reporting, cross-unit collaboration and board involvement are negotiable. There is no universally perfect combination, as each element can only be chosen and designed to reflect the firm's existing structures and culture, or meet its desired ones. A balance can be achieved between existing structures that have proven their effectiveness for the firm, and introducing new combinations for their energy and potential.

Dowse CSP works with business and government on sustainability and climate change issues, and related communication. www.dowsecsp.com.au; joshd@dowsecsp.com.au

Notes

- 1 *Harlowe's Nominees Pty Ltd v Woodside (Lakes Entrance Oil NL) (1967) 121 CLR 483 at p 493*
- 2 BHP Billiton Sustainability Report 2006, p 192
- 3 Australian Centre for Corporate Social Responsibility, *The CSR Manager in Australia*, October 2007, p 9
- 4 BT Sustainability Report 2007, p 5
- 5 <http://www.alastairmcintosh.com/general/quarry/lafarge-panel.htm> [4 January 2008] ●

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