Ethical CORPORATION

September 2013
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Latin America
Moving to a responsible business rhythm

Fairphone
Smartphone startup

Supply chains
How sustainability creates success

Football ethics

Can the world game clean up?

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Welcome to the September 2013 issue

For many fans of many sports, this time of year means one thing: the start of the new season, not least for European football. To mark this, in the first of a two-part investigation into ethics in football, we focus on the governance of the world game, and in particular how the organisation at the top – Fifa – conducts itself.

Even a casual observer will have struggled to avoid the seemingly endless number of scandals and corruption allegations that have dogged Fifa for the past few years. Senior members of the committees that award host nations the World Cup – and all the potential profits – have been accused of soliciting and accepting payments to swing their support a particular direction. Court documents have emerged implicating former officials, including a past Fifa president, in taking bribes before awarding broadcasting rights.

And there have been other strange goings-on. Not least among these was the decision to award the 2022 World Cup to the tiny Gulf state of Qatar – to many a bizarre move, for many reasons, not least the nation's geographical location. Fifa's leadership did, albeit reluctantly, set in motion a reform effort in 2011, and improvements do seem to have been made. But the organisation has yet to implement all the recommendations of the group Fifa itself set up to look into its murky governance.

Football is of course big business, and many big brands are longstanding "partners" with Fifa. While they are not implicated in any of the allegations, of course, there are inevitably reputational risks being associated with such a tangled web. We try to unpick it from p26. Next issue we will take a look at the domestic game around the world.

Elsewhere this month we have the first in a series of regional briefings, this time on Latin America. While sustainable business is definitely on the agenda for companies across the region, it's fairly clear that, for now, there isn't yet a unified approach that reflects how business has developed. There are some exciting local leaders, alongside regional subsidiaries of big US or European multinationals, that set the sustainability pace.

Interventionist governments have historically been a challenge for international companies setting up new businesses in the region. But equally, there are opportunities where governments are willing to establish corporate environments where social responsibility is rewarded. Our in-depth look at Latin America is from p11.

In strategy and management we have a great case study on Fairphone, a Netherlands-based startup that has developed a sustainable and ethically-sourced smartphone, which competes on style, performance and pricing terms with other handsets on the market. While it is still early days, the company is a great example of what can be achieved – and that sustainable business models work.

We also have all the regular columns and analysis, and reviews of the latest reporting from Volkswagen and Delta. As always, please do get in touch if you have any comments or suggestions for future things we should investigate. ■

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EthicsWatch

Anti-bribery messages, climate action options, sustainability careers and online ads

Analysis: food waste

Crumbs of comfort

By Rob Bailes

A new industry initiative aims to help Europe meet its targets for cutting high levels of food waste

In an effort to tackle food waste issues, FoodDrinkEurope – the trade association representing Europe's food and drink industries – has announced a joint food waste declaration, Every Crumb Counts.

The initiative brings together stakeholders from across the food and packaging industries, committing them to reducing food wastage across the supply chain, in line with the European commission's goal of halving edible food waste by 2020.

Reflecting a broader European Union drive for more effective resource management, signatories to the declaration commit to promoting a lifecycle approach in their response to the food waste issue.

Speaking at the launch of the initiative, Matthias Groote MEP, chair of the European parliament's environment, public health and food safety committee, said: "Food wastage does not only have a big impact on the global food situation, but also significant economic and ecological consequences."

His comments underscore the growing economic rationale for dealing with food waste – an area also explored within the joint declaration, which encourages the food industry to look at new markets for waste food.

One-third wasted

According to a 2011 study by the Swedish Institute for Food and Biotechnology, about one-third of food intended for human consumption (about 1.3bn tonnes) is lost or wasted globally each year. In Europe, about 90m tonnes of food is wasted annually. This equates to 179kg per person.

A study conducted by the UK's Waste Resources Action Programme (Wrap) found that household food and drink waste in the UK amounted to 7.2m tonnes in 2010 (down from 8.3m tonnes in 2006-7). This is about one-fifth of all food and drink bought in the UK.

"Food waste is a major global issue. While almost half of all UK food waste occurs in the home, we're also aware that significant quantities are wasted through the supply chain, from farm to factory gate and onwards," says Richard Swannell, Wrap's food and drink director.

Wrap's work with business and industry has focused on a number of initiatives, including the Courtauld commitment (now in its third phase) and the hospitality and food service agreement (HaFSA). The economic case for addressing food waste is clear, Swannell says. "If just 25% of businesses in the sector sign up to the HaFSA agreement, they could save a total of £76m and reduce their CO_2 emissions by 570,000 tonnes," he argues.

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How too much food ends up

A number of large businesses have sought to harvest some of this low hanging fruit in recent years in the form of voluntary waste targets and commitments. In 2010, Nestlé UK committed to send zero waste to landfill by 2014. Half of its UK factories had achieved this by the end of 2012.

In June 2013, UK supermarket Sainsbury's announced it had achieved its 20x20 goal of sending no waste to landfill. According to a Sainsbury's spokesman, surplus food is either used by the company's charity partners, processed into animal feed, or used to generate energy through anaerobic digestion.

Net value

A scheme to clean up discarded fishing nets from the oceans is preparing to move into its next phase: recycling the nets into textile products including socks and carpets. The **Healthy Seas** initiative was set up by the Netherlands-based **European Expertise Centre for Biodiversity and Sustainability**, Italy's **Aquafil Group** and Dutch wholesaler **Star Sock** to tackle the problem of "ghost fishing", or the trapping of marine life in free-floating waste nets.

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A thing of the past?

Healthy Seas' divers retrieve the nylon nets, which are cleaned and regenerated by Aquafil into Econyl yarn, a product made from waste polymers. Fishermen can also donate their old fishing nets for recycling. The initiative is on the verge of moving to full production, and is open to partnership proposals.

Target watered down

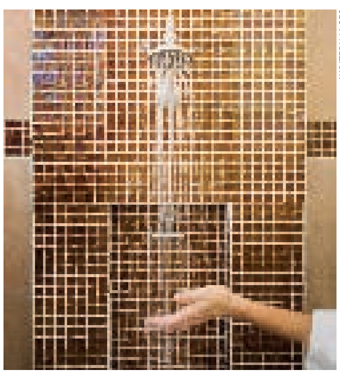
The government of **New Zealand** has outraged greens by setting an unambitious 5% greenhouse gas reduction target for 2020, compared with 1990. The target represents a watering down by the centre-right National Party-led government of a pledge made in 2010 under the Copenhagen accord that New Zealand would take on a target of up to 20%. Climate change minister **Tim Groser** says the reduced goal was "affordable and demonstrates that New Zealand is doing its fair share to address global climate change". The leader of the country's Green Party, **Russel Norman**, said the target amounted to "freeloading" on the efforts of other countries to reduce emissions. By comparison, the European Union has a 20% target.

Frugal Google

Google enjoyed its sixth year of **carbon neutrality** in 2012, though this meant buying offsets to cover 1.5m tonnes of CO_2 emitted by its operations, the firm's latest carbon footprint data has shown. Emissions in 2012 were down **9.4%** from the 2011 total of 1.68m tonnes. Most of the CO_2 generated by the company was attributed to the generation of electricity to power its offices and data centres, though business travel, employee commuting, data centre construction and other indirect emissions also contributed a significant chunk. Google schemes to cut emissions further include shuttles to get employees to work, installation of solar panels at its sites, and highly energy-efficient data centres, which the company says "have saved us over **$1bn** to date".

Shower power

Consumer goods giant **Unilever** has turned to crowdsourcing to help it achieve a difficult sustainability target: to reduce the water consumption from the showering of 200 million consumers. Unilever wants to meet the target by 2015 but admits that "progress is slow". It is therefore asking for new ideas for a shower that will consume no more than 10 litres of water per use, compared with about 60 litres for a standard eight-minute shower. For winning submissions, there are prizes of up to $5,000 and involvement in the further development of the idea.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Shower 2.0 ideas to Unilever

Michiel Leijnse, Unilever water and innovation brand director, says: "The showering process hasn't changed in decades. We'd like to reinvent the shower in a way that reduces its environmental impact."

Analysis: Asian fires

Burning issue

By Eric Marx

South-east Asia's forests and peatlands continue to go up in smoke, with serious consequences for regional air quality

Thick, smoke-fuelled haze has become an almost annual blight in south-east Asia, with this year's wildfires engulfing large chunks of peninsular Malaysia, the entire city state of nearby Singapore, and western parts of sprawling Indonesia.

For days, residents were warned to stay indoors, so great was the health hazard. Pollution indexes shot to record highs, while regional economies suffered catastrophic losses linked to tourism cancellations.

Startling as this was to many, close observers say the most important aspect of this latest conflagration is that in coming years this may become the new normal. Forest fires in Indonesia are part of a long-standing, endemic problem – with the most recent fire crisis not an unusual event in the region's history since 2000.


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The new normal in SE Asia?

The June levels of haze "were the result of unusual wind patterns, not unusually high levels of forest fires", wrote Nigel Sizer, director of the forests initiative at the World Resources Institute (WRI), in a blog post.

Nearly half of 2013's fires were in timber and oil palm plantations – a statistic backed by maps from the Indonesian Ministry of Forestry and Nasa satellite data but disputed by the Roundtable on Sustainable Palm Oil (RSPO) in a series of press releases issued against Greenpeace.

The fires are especially worrisome because of their link to the burning of secondary forest on valuable peatland soils. Fires on this peat, with its rich combustible organic matter stretching deep into the ground, are far more serious from both a human health and an environmental perspective. They release larger amounts of smoke, other pollutants and greenhouse gases than fires elsewhere, and they can burn for weeks or even months. Peatland fires were linked to roughly two-thirds of the 2013 fires, according to WRI.

Some commentators in Indonesia defend their growers by saying the source of the haze was spontaneous peat fires owing to high temperatures, and not deliberate burning of forests. Others say it is common for large firms to expand by paying locals to set fires along the sides of their concessions. Plantation owners deny that they themselves use slash-and-burn techniques, but rely solely on the use of excavators to clear the land.

To Sizer, an expert on Indonesian forests of many years' experience, the source of the confusion about responsibility for fires highlights the inadequacy of current maps housed in official Indonesian government databases.

Smog summit

But what can south-east Asian countries do to address these challenges? The governments of Indonesia, Singapore, Malaysia, Brunei and Thailand met in mid-July at a so-called "haze summit" to discuss ways to curb fires in the region.

What emerged was a positive half-step – a recommendation to share company concession data between governments, but without a pledge to make the data freely available to the public.

"This agreement represents a missed opportunity," according to Sizer, "as publicly available concession data is essential for co-ordination between governments and local agencies, for contract compliance between commodity producers and their corporate customers, and for independent monitoring by researchers and civil society."

Analysis: International Business Leaders Forum

Our work here is done

By Eric Marx

For those who fear there are too many non-profit organisations chasing the same goals, the venerable International Business Leaders Forum has some welcome news

When it comes to corporate sustainability, is the rise of more non-profit groups necessarily a good thing? Does a proliferation of NGOs threaten to create too many organisations working in the same area with essentially the same mission?

That realisation appears to have set in at the International Business Leaders Forum (IBLF),

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End of an era for IBLF

which recently announced it would be winding down over the next several months after more than two decades in operation.

"While the world continues to face significant challenges in this area, we have come to realise that with many businesses now becoming self-sufficient in sustainable development, our business model of global corporate membership is no longer viable," wrote Mark Foster, chairman of the IBLF board of trustees, in an email to members.

Speaking to Ethical Corporation, Foster confirms a plan to continue three core programmes as either standalone independent bodies or semi-autonomous concerns merged inside other organisations already operating in related areas.

These are: the International Tourism Partnership now successfully operating under its own brand and backed with considerable industry support; the Partnering Initiative, a global leader since 2004 in cross-sector partnerships training, which will explore new approaches to scale up its impact; and an international Business Standards programme whose in-country capacity will probably shift most of its resources towards Russia, where the IBLF sees a strong network emerging.

Victim of own success

Established in 1990 by the Prince of Wales and a group of influential chief executives, the IBLF helped develop much of the intellectual basis that is today's bedrock of global corporate responsibility. In many ways the IBLF became a victim of its own success, having helped spawn bodies such as the UN Global Compact, the Global Business Coalition on Health, and the Business Call to Action.

"Businesses are looking less and less to be members of things," says Foster. "Quite rightly they are now looking to drive a lot more of the activity themselves, or they want to be a part of very specific programmes which they are prepared to fund around specific objectives," says Foster.

He quickly adds: "That's not to say the battle has been won … The key thing is trying to find the right platform for the future – platforms that are larger in scale, ones that are able to draw in and convene greater financial investment firepower from both businesses and NGOs, as well as wider governing communities."

Organisations such as the G20 and UN Global Compact can facilitate this work, yet at a more fundamental level business still lacks partnering capacity to dig down into local contexts, Foster says, citing the work of the IBLF Partnering Initiative as a necessary ingredient cutting across all current programming.

Led by Darian Stibbe, the Partnering Initiative will continue to play a role at the international level in global forums, and on-the-ground supporting in-country hubs through its business in development facility and with the Global Compact's country network.

"Although there are many partnerships going on already, we are really only scratching at the surface of what's required compared with the scale of the challenges out there," Stibbe says.

As for the immediate future, Stibbe and Foster say they are in discussions with potential funding partners.

Foster says his hope is for the "vast majority of current programme activity to be taken forward", adding: "The idea is to make sure that in the end we see as many of these programmes have homes as is possible."

Caring consumers

Consumers globally are 5% more willing in 2012 than they were in 2011 to pay higher prices for goods and services from socially responsible companies, a survey has found. The **Nielsen "consumers who care" study** covered 29,000 people in 58 countries, finding that on average 50% of consumers say they would spend more to be ethical.

More than two-thirds of consumers in **India**, **Indonesia**, **the Philippines** and **Thailand** favoured ethical purchasing, but in Europe, Nielsen has found a "broader cynicism toward business", with consumers sceptical about corporate responsibility, and about the social impact of business in general. Only a third of European consumers say they would pay extra to buy ethical. Although half of consumers worldwide claim they would buy responsibly, only 43% say they had actually done so.

UK climate cities

Leicester and **London** are the UK's urban areas most prepared for climate change, according to research from **Newcastle University.** They have separate climate adaptation and mitigation plans, have calculated their carbon footprints, and are measuring progress in reducing emissions, giving

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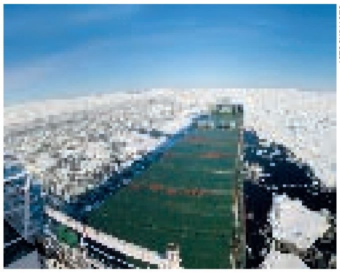
London's ready

them high "urban climate change preparedness scores". Other urban areas are faring less well, with vague emission reduction targets or inconsistent action plans. A UK preparedness map drawn up by the university shows that the least prepared are **Belfast**, **Derry** and **Wrexham**, which have "only recently embarked upon tackling climate change".

Arctic adventure

A container ship that will dock in the Dutch port of **Rotterdam** during September could be the first sign of a significant change in world trade – thanks to climate change. The vessel, owned by **Cosco Group,** is the first Chinese merchant ship to travel to Europe via the **Arctic north-east passage.** The use of the Arctic route by container ships has become feasible because of melting ice brought about by the heating up of the planet. The ship's journey, from the Chinese port of Dalian, will take a month, two weeks fewer than going via the Suez Canal. Cosco says that the north-east passage route will save considerable fuel and money, as well as time. The value of China's exports to the European Union, for which Rotterdam is the largest port, was **$385bn** in 2012.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An ever-more popular route

Pole position

The prize for publishing the first sustainability report prepared according to the new **Global Reporting Initiative G4 guidelines** has been claimed not by a company, but by the Polish capital, **Warsaw**. The city's integrated report covers its financial performance (Warsaw has a €3.2bn (£2.7bn) budget), its societal performance, such as work to improve public safety and the maintenance of Unesco World Heritage sites for public benefit, and its environmental goals, such as a 20% emissions cut by 2020 compared with 2007 and a pledge to keep 25% of the city area as green space. Warsaw is also preparing to host the 2013 United Nations climate change conference in November. Mayor **Hanna Gronkiewicz-Waltz** says: "Opportunities related to achieving our goals are immense."

Analysis: Global Corruption Barometer

A worsening scourge?

By Jerri-Lynn Scofield

Transparency International's latest corruption survey suggests that throughout the world people believe their governments are losing the global battle against corruption

Transparency International's 2013 global corruption barometer makes for uncomfortable reading.

"The problem of bribery remains consistently high at the global level," says Finn Heinrich, TI's director of research. "It's quite a telling figure that one in every three respondents said they had paid a bribe – that's shockingly high."

The survey investigated the public attitudes towards corruption of more than 114,000 respondents in 107 countries. "In the vast majority of countries," Heinrich says, "people feel the problem is increasing."

Despite stepped up enforcement of national anti-corruption statutes – including the US's Foreign Corrupt Practices Act and the UK's Bribery Act – governments are seen to be losing ground in the global fight against corruption. "In the 2008 survey, 31% said governments were effective in the fight against corruption – that figure's now dropped to 22%," Heinrich adds.

A major reason for this deterioration, Heinrich says, is that a lack of accountability, and unethical behaviour on the part of governments and corporate leaders, have been prominent topics in the news.

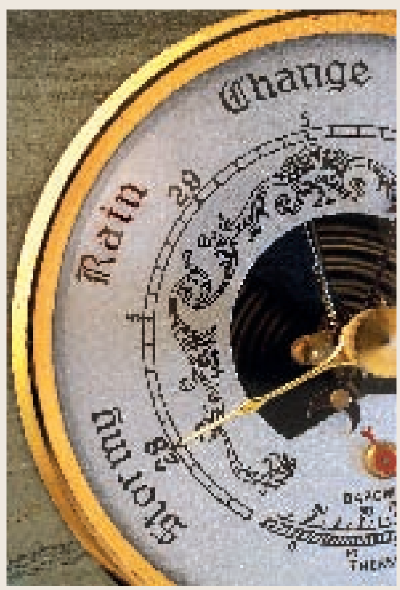
"People realise this trend is not going in the right direction," he says. "They believe that governments in many places are only paying lip service to the problem of corruption, and are not taking effective countermeasures, so the issue of impunity for corruption has not been solved."

"Companies adopting a zero-tolerance policy toward bribery will eliminate themselves from a raft of corporate- and government-related business around the world, where in one form or another 'greasing the wheels' is accepted practice. But that may be the price such companies and their home economies must pay to remain compliant with their national laws," says Terrence Tehranian, partner in Pioneer Point Partners LLP, a private investment group based in London.

The global corruption barometer survey is one of many that TI compiles. Others include a corruption perceptions index that gathers expert opinion on public sector corruption, and a bribe payers index, which focuses on business corruption. In addition, TI's national integrity system assessment is a diagnostic tool that examines major institutions and makes recommendations for improving a country's performance in fighting corruption.

What about China?

This year's barometer is far from complete, as TI was not able to obtain data on corruption in China. TI relies on local companies to conduct the surveys it uses as the basis for its reports. "The problem is that any survey company that runs a survey on such a sensitive issue as corruption requires Chinese government approval. That is of course beyond TI's control," Heinrich says. China is, however, included in both TI's bribe payers index and its corruption perceptions index.



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Corruption perceptions still not set fair

The news on corruption isn't all negative: respondents in 24 countries – about 20% of those surveyed – believe corruption levels have either stayed the same, or improved, in the past two years. Even more importantly, Heinrich argues, "people are realising they have a responsibility to fight corruption – maybe this is the silver lining coming out of our survey".

Indeed, for significant progress to be made in reducing corruption the focus cannot be on government and companies alone. Heinrich concludes: "It requires the action of citizens to fight corruption effectively, by saying no to a bribe, and holding all levels governments accountable."

Corporate engagement

Time to get serious with stakeholders

Companies need to understand their staff, customers and suppliers at a level that is never going to be achieved by simplistic questionnaires, argues Mallen Baker

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Well worn, but true: keep the important people engaged

Stakeholder engagement is seen as a core part of corporate responsibility.

You would think that since it is so important, the responsibility profession would have become sophisticated in how this is done. So far, my experience suggests that simply isn't the case.

I still get asked by research companies such questions as "please rank the following companies on a scale of 1 to 10 on how socially responsible you think they are", and "please say which of the following issues are most important, very important, quite important, or not very important to you".

Such approaches are highly likely to provide you with junk data. This is partially because the questions seek highly nuanced responses (is it a 7 out of 10, or maybe an 8 out of 10?) where such quantification is ill advised at best.

And it is also because, when faced with such questionnaires, people lie. They don't want to admit that they don't know about company X's track record on its supply chain when they're being spoken to as a supposed expert in corporate responsibility. So they'll make something up. The format of the questionnaires rather encourages it.

And even if it wasn't junk data (but it will be) the exercise is still of considerably lower value than it need be if you make the extremely common mistake of asking stakeholders what they think of your reporting.

If they don't care about your business, then how you report what you do will be completely irrelevant to them because they don't yet see the value of engaging with you at all.

The purpose of stakeholder engagement should really be two fold.

First, it is to help inform the decision-making of the business by making visible some of the potential consequences of proposed decisions. That's core business stuff, and of interest to stakeholders because it's about the actions that may directly affect them.

Second, it is about building relationships with people that are important to the business – relationships on a level other than the one where people buy stuff from you.

Focus and sophistication

For stakeholder engagement to work at that level, it has to be focused and sophisticated.

And focused on the right people. Too much time is spent on "experts", who are not your stakeholders, and not enough with your staff, customers and suppliers, who really are.

Your mission is to understand stakeholders with the same degree of depth as your marketers seek to understand customers. But it is even more challenging – because whereas the marketers aim only to understand customers through the things that influence their buying behaviours, you need to understand the thoughts, fears and aspirations that affect them in their lives as citizens.

When it comes to stakeholders, you're not initially focusing on individuals, but on a context – that is, the context by which the relationship with your company is created.

They won't be interested in engaging with you just as a matter of course – as though talking to a supermarket, or a law firm, about its approach to carbon reductions is important to them.

It will work because they see that it affects them – their life hopes, fears and aspirations, and the impact that you may have on those.

Engagement is about building relationships with people that are important to the business

For me, the most interesting results from stakeholder engagement exercises have come from surprising quarters – but only when there was a process designed to explore understanding, not to fill in the boxes of a limited-focus questionnaire.

Like the company that carried out a workshop with young apprentices on its workforce and learned, to its surprise (and a degree of dismay) why their standard approaches to communicating their sustainability report internally were completely missing the mark.

There's some useful cross-fertilisation to be done between the corporate responsibility team and the marketing team in this area.

After all, if marketers could see that understanding customers as citizens would help them to build trust with those customers – they ought to be very interested, right?

And their knowledge of research techniques that get real human insights even in those situations where people are inclined to lie, or where their aspirational statements don't meet their actions (even if they've persuaded themselves of the reverse) can be an interesting starting point for a more creative stakeholder discussion. ■

COLUMNIST: MALLEN BAKER

Mallen Baker is managing director of Daisywheel Interactive and a contributing editor to Ethical Corporation.

Briefing: Latin America

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Business agenda

The sustainability stage is set

By Oliver Balch

Corporate responsibility is very much on the agenda of Latin America's business sector, but the region is still searching for an approach that resonates with local realities

Latin America likes a revolution from time to time. That said, the political landscape is less febrile today than at any time for several decades. Nations that once ping-ponged from coup to coup are learning to accommodate democracy.

Populism is still rife, but the recent passing of Venezuela's charismatic leader Hugo Chavez marks a symbolic blow to the more extreme form of personality politics.

A more stable political environment has given Latin America's economies the conditions they need to start growing. The region's leaders, such as Chile, Mexico and especially Brazil, are capitalising on long-running market reform programmes that are now coming to fruition. Others, such as Uruguay and Colombia, are newer to the game and rising fast.

Thanks to a sustained commodity boom and vigorous demand from Asia, Latin America has survived relatively unscathed from the 2008 banking crisis and its repercussions. While the yo-yo days of boom and bust are perhaps not banished for ever, steady growth is the current story for most countries. The region as a whole is expected to record a GDP growth rate of around 3.5% in 2013, according to the World Bank. Not quite the stellar 6% of 2010, but healthy all the same compared with the world's sluggish developed markets.

Foreign investors started to pay serious attention to the region in the 1990s and continue to do so. Central America has long been the backyard for North American companies, particularly export-led industries such as textiles and agricultural commodities. The remainder of the region has begun to prosper in recent years on the back of investor interest in emerging markets. In 2012, Latin America and the Caribbean received a record $173bn of foreign direct investment, up 6.7% on the previous year. Leading the charge is the extractive industry, which has benefited resource-rich countries such as Chile, Peru, Brazil and El Salvador enormously.

All of this helps explain Latin America's latest revolution: corporate responsibility ("RSE", to give it its commonly-used Spanish and Portuguese acronym). It's everywhere. There are endless conferences dedicated to the subject, frequent op-eds in the newspapers, pages and pages on corporate websites, and the emergence of numerous corporate responsibility organisations.

Bar a few regional exceptions, such as cosmetics firm Natura in Brazil and cement giant Cemex in Mexico, it is generally foreign-owned multinational corporations that are setting the pace. National companies are catching up fast, though. The UN Global Compact, for instance, counts six Latin American states (Brazil, Mexico, Colombia, Argentina, Peru and Panama) in its top 20 countries by member participants.

In vogue, but not in sync

But is corporate responsibility a fad? Perhaps. The concept is relatively new in the region, so some hype and excitement around it is only natural. To be clear: corporate responsibility is "new" in its guise as a serious strategic proposition for business management. As a vehicle for corporate philanthropy, Latin America has a long history, thanks in large part to religious (predominantly Catholic), cultural (predominantly paternalistic) and business

The Global Compact counts six Latin American states in its top 20 countries by member participants

Latin America and Caribbean: key facts

- Total population: 581.4 million
- Urban population: 79%
- Total GDP: $5.35tr (2012)
- GDP growth: 3.3%-3.5% (2013 projected)
- Average per capita income: $9,025
- Life expectancy: 74 years

Source: World Bank


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The poverty gap remains wide

(predominantly family-owned) factors.

A number of commentators argue that the corporate responsibility bandwagon is getting ahead of itself. "There's a huge gap between rhetoric and reality, as much at the market level as the company level," says Antonio Vives, former head of the Inter-American Development Bank's corporate responsibility programme and now a consulting professor at Stanford University. The current flurry of activity hides a phase of "maximum confusion", he says.

This certainly seems to be the case in terms of standardisation. Latin American businesses now face emerging national regulations, such as those in Brazil, Mexico and Colombia, as well as new local and municipal standards, such as in Ecuador. These are interwoven and often overlain by national norms, such as the Ethos Corporate Social Responsibility Indicators in Brazil, as well as the ever more widespread stock of international standards, such as SA8000, the Global Compact and, most recently, Sistema B (Latin America's version of B Corporation).

To tar the whole of the region with the same brush would be a mistake, however. All the 20 republics that make up Latin America are at different stages of implementation.

Out in front are the region's largest economies: Brazil, Mexico, Chile and Argentina. This is to be expected given their links with global markets. For smaller players, such as Bolivia, Guyana and Paraguay, corporate responsibility remains very much a novelty.

Different business cultures play a distinguishing role, too. Central America, for instance, is heavily influenced by US management practices. Issues of political economy are important. The power of Venezuela's public enterprises, such as PDVSA, means the corporate responsibility agenda tilts strongly towards state priorities. In Argentina, meanwhile, the sovereign debt crisis of 2001 has popularised alternatives to corporate responsibility, such as social enterprise and cooperativism.

When comparing the Latin American corporate responsibility scene with that of western developed markets, one notable difference is the factors driving the movement.

Of course, some are universal, particularly with respect to retaining and attracting talent. Latin America's most successful businesses are clocking the importance of the "sweet spot" between quality, productivity and labour costs, says Marc de Sousa, managing partner of Mexico-based advisory firm ES Global Consulting.

But compared with the US or Europe, pressure from media, investors, consumers and NGOs is far weaker, while companies operating in Latin America very often have to negotiate a more interventionist state and more powerful trade unions than their North American and European counterparts.

All to play for

Clear opportunities lie ahead for those that get it right. Early pioneers are already seeing considerable benefits, particularly in the reputation stakes. The corporate responsibility programmes of Brazilian healthcare products brand Boticario, for instance, earns the company a place in WPP's prestigious Top 50 Most Valuable Latin American Brands ranking. "Building a brand in Latin America is about investing in the future of a region," the WPP study concludes.

While poverty is gradually reducing in the region (the middle class grew by 26% between 2006 and 2011), a substantial disparity still exists between rich and poor. Linking corporate responsibility to business models that focus on low-income consumers is therefore a commercially savvy move, as much as a socially responsible one.

Cemex's much-lauded Patrimonio Hoy programme, which sees the cement company provide credit for homebuilding materials, is illustrative of this market-minded trend.

As with any young movement, challenges as well as opportunities await. To date, the corporate sector – either collectively or individually – has done much of the running on its own. In future, greater collaboration with government and civil society will be necessary. It will require the building of trust on both sides of the table for that to happen.

Last but not least is the SME sector. Small businesses account for more than 90% of the private sector in most countries in the region, notes Fabrice Hansé, executive director of Forum Empresa. While progress on corporate responsibility among large companies is welcome, he says, it's a "drop in the ocean" compared with the hundreds of thousands of firms in their supply chains and beyond.

When it comes to corporate responsibility, the direction of travel is very much set. Its importance will only grow in Latin America. Its influence, on the other hand, remains a matter of uncertainty. Conforming to global best practice is clearly essential, but so too is an appreciation for the realities on the ground. Entwine the two in a Latino version of responsible business and a true revolution could unfold. ■

Companies operating in Latin America often have to negotiate an interventionist state and powerful trade unions

WAVEBREAK MEDIA

Corporate strategy

Responsibility with a Latin rhythm

By Oliver Balch

Latin American businesses are demonstrating a hybrid approach to sustainability, with a genuinely distinctive "Latin" model increasingly likely

B Corporation is creating something of a storm in North America. That's no great surprise. The holistic "good business" certification scheme taps into the zeitgeist. Customers and employees are increasingly looking for companies with a "purpose" that lies beyond mere profit. And, in the US especially, there's an ever-expanding coterie of dynamic, mostly young social entrepreneurs to give them what they want.

What is surprising is how fast the same scheme is taking off in Latin America. Launched in early 2012 under the brand "Sistema B", the movement already counts 64 certified firms. An additional 160 or so are undergoing evaluation. In a continent where employment problems (around half the labour force is employed informally) and poverty remain big issues, the drivers for sustainable business might seem weak.

So why the success, and what does it reveal about the field of sustainable business practices in Latin America?

Multiple players

First and foremost, sustainable business is not new. It may not have been branded as "sustainability" until recently, but the notion of businesses having a broader social mandate has a long heritage. Even without consumer or labour market pressure, therefore, ideas of business ethics and philanthropy chime with regional business leaders.

So the shift to the more formalised management practice of corporate responsibility ("RSE" in Spanish and Portuguese), or sustainability, isn't so great. Today, most large companies will at least have a position statement and the bones of a strategy on the issue. The region's largest firms may well have a team of dedicated professionals too, although the norm for most remains shoestring budgets and limited internal resources.

Second, Sistema B points to the influence of the region's neighbours to the north. The stamp of US management practices is strong across the region, particularly in Central America. US corporations such as Coca-Cola, IBM and Microsoft have, through their subsidiaries, done much to set the agenda in terms of corporate responsibility best practice.

While these parent companies may be cutting edge, practice on the ground tends to be catching up. Hence, a plethora of worthy initiatives around core socio-economic themes such as health, education, community development and environmental conservation: all of them solid enough, but not especially strategic or systematic.

"It's still a corporate driven movement like [it was] 10 years ago and it's driven by the competition between corporations, and what is required by headquarters in terms of policy," says Fabian Echegaray, a corporate responsibility expert at Brazil-based consumer monitoring firm Market Analysis.

Things are changing, though. A third factor highlighted by the emergence of Sistema B is the role of homegrown enterprises in the sustainability space. Each of the certified firms is Latin American in origin – though many rely on export trade to the US and other overseas markets. Unlike the corporate responsibility field, which is dominated by big

The stamp of US management practices is strong across the region

Case study: Dole and inclusive business in Peru

US fruit trader **Dole** is working with **2,500 small farmers** in Peru's **Chira Valley** to integrate them into its value chain. Traditionally, farmers' lack of access to technical and financial resources has led to low productivity and high crop rejection rates.

In collaboration with **SNV**, a Netherlands-based non-profit group that provides technical expertise and assistance, Dole has facilitated the small farmers involved in the pilot to obtain **organic certification**. This has helped open up new revenue streams for them via the premium export market.

The programme, which was jointly funded by Dole and the multilateral investment fund of the **Inter-American Development Bank**, saw the farmers form 10 separate producer associations. These farmers' associations subsequently took on responsibility for processing and packaging. Dole eventually transferred ownership of its packaging centres and related infrastructure (worth close to **$1m** in total) to the associations.

During the first three years of the programme, productivity levels increased by **75%**, with profits growing accordingly. The individual associations have since combined under a joint federation and have developed new business streams in the production and commercialisation of organic **manure** and organic **fertiliser**.

In turn, Dole, which now deals **directly with the farmers** rather than through a subcontract arrangement as before, is benefiting from increased efficiency, decreased losses during harvest and, ultimately, larger export volumes of organic bananas.

"In general, the company sources products from large producers or from its own plantations," a summary report by SNV concludes. "For organic and fair trade markets however, small producers offer attractive potential."


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Organic certification helps boost production in Peru

players, all those carrying the Sistema B accreditation are small and medium-sized businesses.

The region's social enterprises still operate very much on the margins, but there is evidence that their business models and practices are gaining traction in the corporate mainstream.

A good example is Chile's Comparte, a fair trade cooperative that supports indigenous communities through the marketing and sale of artisanal handicrafts. The Sistema B firm recently signed pilot deals with national retailer Sodimac Home Centre to promote its fairly traded products. A second pilot followed with retail group Mall Plaza. In the case of Sodimac, the retailer was looking to support small producers but was unsure how best to do so, explains Comparte spokesman Gerardo Wijnant. "Consumers are gradually understanding the impacts of their purchasing, especially among the young," he says. "That wasn't the case 10 years ago."

Another example is Brazil's Ouru Verde, a Sao Paulo-based wholefoods distributor that works with about 500 indigenous families in the Amazon. Set up more than a decade ago, the company has invested heavily in training its suppliers in the gathering, storage and sale of native fruits, such as the Brazil nut and Açai berry. Its end products are natural oils and other healthcare products created from these raw materials, which it then sells in the domestic market. In 2009, Brazilian pulp and paper corporation Grupo Orsa bought a 51% controlling share in the fair trade firm.

Multilatinas: making waves

In the case of Comparte and Ouro Verde, market growth has depended on an intervention by a large domestic investor – or a "multilatina", as Latin America's largest regional companies are termed.

While forging alliances with the growing network of sustainable enterprises is one popular strategy, multilatinas have a growing reputation for generating their own sustainability programmes. Among the most oft-cited leaders in this local pack are the likes of Brazilian cosmetics firm Natura, Mexican cement company Cemex and Argentina's food manufacturer Arcor. They have adopted advanced management practices, from sustainable procurement through to non-financial reporting.

Responsibly minded multilatinas are still a relatively rare breed

Fabrice Hansé, executive director of the business-led network Forum Empresa, admits that the responsibly minded multilatinas are still a relatively rare breed. Yet the field as a whole is "bridging the gap very quickly" with foreign multinationals, he insists, saying: "The multilatinas now have all the kinds of international practices that you can imagine. They're really global players because most of them are operating in Europe and Asia, so they have to [adopt] global standards."

A recent study by Forum Empresa finds that 68% of sustainability reports follow the benchmark GRI standards. Meanwhile, the number of GRI-formatted reports soared up by about 150% between 2009 and 2012. The Forum Empresa study,


SABMILLER/NICE AND SERIOUS

El Salvador's shopkeepers benefit from SABMiller's expertise

Case Study: SABMiller – Progresando Juntos

El Salvadorian brewer **Industrias La Constancia** (ILC), a subsidiary of **SABMiller**, is running a successful business development project that is resulting in big wins for its product distribution.

In the absence of major supermarket chains in much of **El Salvador**, the company depends heavily on small stores and local restaurants for the sale of its beer. Typically, these **family-run businesses** have limited management capacity. To help strengthen the business skills of these small retailers, ILC developed a training and mentoring programme.

Entitled Progresando Juntos (Progressing Together), the initiative offers a free, eight-month course in critical areas such as **inventory management**, **promotion** and **marketing**, basic **accountancy** and **customer service**. Instruction on promoting **responsible drinking** is also provided. The classroom learning phase is followed up by individual support from an external mentor on specific issues, ranging from product costing to administrative control.

The course is open to all small business owners who have been clients of ILC for at least one year and who have a good payment record. Many of the participants are women, single mothers, and even senior citizens, who have set up small retail outlets to boost their family incomes.

"For Industrias La Constancia, this programme represents our commitment to an entrepreneurial vision which involves growing hand in hand with El Salvador ... We seek to promote corporate development for our business partners which definitely constitutes an **invaluable link within our value chain**," says Aldo Vallejo, ILC's vice-president for corporate affairs.

The programme has the support of the Salvadoran Chamber of Commerce and Industry's Supplier Development Programme, in alliance with the UN Development Programme and the Inter-American Development Bank. As well as retail owners, the programme has expanded to include supplier firms. SABMiller is considering opportunities to develop similar initiatives in other markets in the region.

which is based on opinions of more than 3,400 business executives and consumers, finds that the perceived performance of those companies with dedicated internal resources (81%) far outstrips those that have none (54%).

Leonardo Cardenas, director-general for Mexico, Central America and the Caribbean at quality management firm TÜV SÜD, agrees that the region's corporations are maturing fast. "CEOs are starting to ask the corporate responsibility manager or director, where is my money?" he says, noting the emerging demand for measurable business benefits from corporate responsibility investments. "Run more like a business" is the refrain he now hears repeatedly from his corporate clients. The growth towards independently audited non-financial reports is symptomatic of this trend, he argues.

Governments are increasingly realising the social value that sustainable business solutions can bring

Latin lessons

Latin America's sustainability leaders, be they large firms or small, are not working in a vacuum. One of the distinguishing aspects of business life in the region is the active role of the state. The corporate responsibility field is not exempt. Far from it. Governments are increasingly realising the social value that sustainable business solutions can bring. Both Comparte and Ouro Verde received state support, for example: the former in terms of product development and market growth from Fosis, a state development agency in Chile; and the latter in terms of supplier training via the UN Development Programme.

Government intervention can represent a force for good. The Inter-American Development Bank, for instance, has played a particularly active role in promoting best practice in the private sector.

Take its Opportunities for the Majority programme (OMJ). The initiative was set up to facilitate the development of market-led solutions by the private sector and others to address the needs of low income populations. OMJ has so far funded 45 projects to the tune of $250m, which leveraged an additional $1bn in investments. At the level of management principles, meanwhile, the UN Global Compact is having a substantial impact on formalising sustainable business within corporate policy structures.

There are downsides too. Ever-present government can easily politicise the sustainability agenda

Top 10 "multilatina" companies

Ranking 2013	Ranking 2012	Company	Country of origin	Sector	Sales 2012 (US$bn)	Operating countries	% export sales
1	4	**Cemex**	Mexico	cement	15.2	50	77
2	1	**Grupo JBS – Friboi**	Brazil	food	34.9	15	84
3	2	**Brightstar**	US/Bolivia	telecoms	4.2	46	55
4	5	**Tenaris**	Argentina	metals	10.8	11	86
5	7	**Grupo Alfa**	Mexico	multi-sector	13.0	17	60
6	-	**Latam**	Chile/Brazil	airlines	13.4	16	57
7	11	**IMPSA**	Argentina	energy	1.4	30	67
8	6	**Telmex**	Mexico	telecoms	10.1	8	96
8	10	**AJEgroup**	Peru	beverage	1.7	16	80
10	0	**Ternium**	Argentina	metals	8.7	10	74

Source: America Economia

Sustainability remains a fringe activity for the vast majority of businesses in Latin America

and skew corporate practices away from rational strategic goals. A recent study by Mexico-based advisory firm ES Global Consulting demonstrates just such a trend. Undertaken on behalf of Oxfam International, the study of about 500 companies in six countries identifies "basic services" – ie provision of essential utilities, constructing core infrastructure, sorting out the drains, whatever the immediate issue is that the state needs fixing – as a priority area for many corporate responsibility programmes.

Marc de Sousa, the firm's managing partner, says such activities constitute "stuff the government should be doing". Ancillary to a business's core activities though these may be, "sucking up" to the government by consenting to contribute towards the delivering of basic services is – regrettably – what still oils the wheels in much of the region. Providing services that should be the state's responsibility is, in other words, sometimes the price of doing business. In states such as Venezuela and Argentina, where the government is particularly interventionist, the request to contribute is sometimes explicit. Elsewhere, it's merely 'advised'. "It gives corporate responsibility a bad name," de Sousa admits.

Another, more positive characteristic that distinguishes corporate practices among Latin American firms is their commitment to poverty reduction. "Inclusive business really started in Latin America originally and the market is getting larger," says Forum Empresa's Hansé, who describes the region as a "live laboratory of innovation".

A recent report by the World Business Council for Sustainable Development identifies 11 case studies of inclusive business from across the region. Agribusiness dominates the list, with examples from foreign investors such as Nestlé and Dole in Peru, through to local operations such as Delizia in Bolivia and Pronaca in Ecuador. Many are working to integrate small farmers into the mainstream market. Dole, for instance, is helping train 1,600 Peruvian banana farmers in organic farming techniques with an eye to the export market (see case study).

Another prevalent industry is energy. Colombian gas distributor Promigas, for instance, provides consumers with a microcredit facility to enable households to access natural-gas-related services. Similarly, consumer goods companies are working with small retailers to improve their business skills and thereby strengthen their distributions chains. Two good examples are Industrias La Constancia's Progresando Juntos project in El Salvador (see case study) and Mi Tienda's affiliate training programme in Mexico.

On the fringes

For all the evidence of recent progress, sustainability remains a fringe activity for the vast majority of businesses in Latin America. Involving SMEs, which make up the vast majority of businesses, remains a major challenge for the future. A healthier, more interactive relationship between companies and the governmental and non-governmental sectors would also do much to improve the incentives for, and effectiveness of, corporate sustainability programmes.

That said, there are promising signs that sustainability is spreading out from its niche among large foreign corporations, and percolating up from small home grown innovators. The ideal would be that more companies gravitate towards global practice, without losing the best aspects of local innovation. It may be too confusing for certifiers to quantify, but a distinctively Latin-flavoured form of corporate sustainability would enrich business practices not only on the continent but around the world as well. ■


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NGOs and civil society

Multilateral efforts for sustainable development

By Eric Marx

Following a turnaround in Latin America's economic fortunes, there's a new momentum for sustainable development as governments align themselves with NGO efforts

It wasn't always destined to happen this way. As recently as the late 1990s, most Latin American countries remained politically isolated, their economies hindered by a provincialism that halted regional integration and stunted global trade.

Little more than a decade later, much has changed.

Thanks, in part, to a new crop of leaders and a commodities "super cycle" that continues to generate large tax revenues, Latin America is booming like never before. Overall, the middle class has increased by 50%, while the percentage of Latin Americans living in poverty has fallen by almost a third.

Conditions would appear to be right for a fuller embrace of sustainable development models. In other words, economic growth based on the exploitation of natural resources can continue, but in a way that reduces environmental risks and promotes social inclusiveness.

Latin America has some of the world's top solar, wind and geothermal resources, and yet the region still only garners 5% of global investment in clean energy. Opportunities should abound.

As for agriculture, according to the Inter-American Development Bank, since 1990 productivity in farming has risen faster than in eastern Asia or the US. Much of that gain, however, has translated into vast new fields of soy run by transnational companies. Agribusiness exports have soared, often at the expense of smallholder farmers and the rural poor.

What hasn't yet transpired is a comprehensive, cross-cutting approach that integrates natural capital as an element in economic sustainability.

That may soon change, however, if a new nationwide compensation scheme in Colombia is adopted elsewhere in the region. For the first time, companies investing in large infrastructure projects must compensate for any loss of biodiversity caused by their operations. Passed in January 2013 after consultation with US environment NGO The Nature Conservancy, the offset law is a leading example of the way governments and civil society are working together to change private sector behaviour.

Governments and the non-profit world are also collaborating through national development banks, which are acting to catalyse green development in areas ranging from infrastructure and certified agriculture to jobs training, health services and renewable energy investment.

Sustainable public-private partnerships and lending to micro, small and medium-sized enterprises are two methods of engagement, though observers say there isn't any one standout model. Rather, different approaches are being tried – with success stories now beginning to emerge from across the Americas.

IDB steps in

Founded in 1959 and with a present membership of 48 countries, the Inter-American Development Bank (IDB) is the oldest and largest multilateral development institution in the region. Only in around 2003, however, did it begin to confront an ideological rift that had seen large, top-down projects dominate a

Conditions would appear to be right for a fuller embrace of sustainable development models

Oxfam starts small

Though Oxfam has had a presence in **Colombia** for more than 25 years, only recently has it begun to actively work in the country to scale up its small enterprise development programs. In the region as a whole, the most successful of these link producers to local markets, says Celeste Molina, regional sustainable food systems coordinator at Oxfam.

Oxfam's Mercados Campesinos programme, which establishes **urban farmers markets**, was piloted in Bogotá and has now been replicated in **Honduras** and **El Salvador**. "It's an emblematic model demonstrating that with appropriate public policies and fair and sustainable access to markets, the peasant economy is not only a means to reducing poverty and inequality but also a viable way to improve access to food at better prices for urban consumers," Molina says.

Oxfam does not work in microfinance and has acted instead as a **guarantor** or **co-investor** in cooperative enterprises that financial institutions often deem too risky. Financing comes from the organisation's enterprise development programme, which in the last five years has disbursed **£3m** to **17 projects** in **15 countries**. Those include an alliance of dairy farm cooperatives in western Colombia and a producer-owned collective in Honduras connecting fruits and vegetable farmers to local supermarkets.

"In some cases we do work with the private sector," says Fabian Llinares, a coordinator for the enterprise development programme in Latin America and the Caribbean at Oxfam. "We only do this if it provides higher profile in markets for smallholder producers."

FELIPE DUPOUY

Local buyers like local produce

lending portfolio whose overriding principles were the privatisation and deregulation of virtually all economic activities.

The bank's lending performance has since improved – with critics giving considerable credit to the multilateral investment fund (MIF), a unit of the IDB whose function is private sector-led development in support of micro, small and medium-sized enterprises.

"We would characterise ourselves as accidental environmentalists," says Carrie McKellogg, chief of the MIF's access to basic services and green growth unit.

Initially MIF focused on sharing information on efficient use of natural resources such as water and energy inputs. "That was purely because we saw that energy costs were a significant share of firms' cost structure, and anything we could do to lower those costs would make them more competitive," says McKellogg.

Over time, the unit shifted towards leveraging natural capital in areas of forestry, eco-tourism and agriculture certification. The idea, McKellogg says, was not just to provide expertise and funding, but also to "create those industries" while pushing the boundaries into areas like clean energy and climate adaptation.

Environmental NGOs and local business associations were the partners among a network of alliances that leaned heavily in the direction of the private sector. Over the past three years, that's changed considerably as more governments have established favourable policies towards clean energy installations, says Gregory Watson, the MIF's environment and clean energy team leader.

First among them is Brazil, which attracted 80% of all clean energy investments, according to ClimateScope 2012, an annual ranking of Latin American countries prepared by Watson and his team.

Surprisingly, Nicaragua ranked second, in large part because of unusually high levels of green microfinance penetration. It also has the region's third-highest share of renewables, with 305 megawatts of its energy coming from clean power. In 2011 alone, it received $117m in investment for geothermal energy and $95m for wind. Coming in third was Panama, a fast-growing economy fuelled by a canal expansion, and Peru, which ranked first in a 2011 Global Microscope survey of countries with favourable microfinance policies.

Costa Rica, which is trying to become the first carbon-neutral country, scored only eighth on the list, largely because of its high electrification rates and the domination of a vertically integrated public utility that is the sole power purchaser in the country. Nevertheless, the country generates 90% of its energy from renewable resources, according to the environment ministry, and is home to the world's first carbon-neutral coffee producer. It is

Costa Rica is trying to become the first carbon-neutral country

Banking on development

The environment for sustainable public-private partnerships has never been better, according to Miguel Aldaz, a lead partnerships officer in the **Inter-American Development Bank**'s office of outreach and partnerships. Aldaz says his unit, charged with being a facilitator among governments, civil society and the private sector, often acts as the "glue" that brings all the parties together.

One good example, says Aldaz, is a deal his office structured, negotiated and co-financed – together with **PepsiCo Foundation**, **Japan Fund for Poverty Reduction**, **Give to Colombia** (an NGO executing partner), and others – for a pilot project in access to water and sanitation that enlisted the government of Colombia as an active learning partner. The pilot aims to test and tune up the methodologies and procedures that the government will then apply in a much larger scale through a **$60m** sovereign guarantee IDB loan.

"In other words," says Aldaz, "while civil society and philanthropic partners provide the resources to test pilot projects, IDB knowhow and linkages with governments aim to scale up the results."

This is the approach IDB is also using in partnership with **Microsoft**, **Caterpillar**, **Wal-Mart**, **Cemex** and **Arcos Dorados**. The bank's private and public sector operations are working together in expanding effective job training and placement models, reaching one million young people in Latin America and the Caribbean over the next decade.

As for large infrastructure projects, an emerging cluster of countries have improved their capacity and readiness for PPP investments. The top reformer group is led by **Colombia**, **Uruguay**, **Guatemala**, **Costa Rica** and **El Salvador**, all of which have accelerated regulatory change and capacity building, according to Carrie McKellogg, chief of the IDB's multilateral investment fund's access to basic services and green growth unit.

Ultimately, says Aldaz, the bank wants to create inclusive, standalone industries so that Latin American countries can begin to diversify beyond commodities. Inclusive recycling, which integrates informal waste collectors into the recycling market, is one such project. It has the potential to reach an estimated four million people and is supported by the **Bill & Melinda Gates Foundation**, **Avina** and **Coca-Cola**. A total of six pilot efforts are envisaged in **Colombia**, **Peru**, **Bolivia**, **Argentina** and **Brazil**, where technical assistance will support regulatory reform and outreach to both municipal representatives and waste-picker cooperatives.


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Local finance institutions bring considerable clout

implementing cleaner technologies in public transportation and in the process of establishing a national registry for the purchase and trading of carbon.

Watson credits Chile with creating quasi-governmental agencies devoted to spurring on investments in both renewables and energy efficiency. In February 2013 Chile launched a bid for a $6bn concentrated solar power plant, a first for the region. It has also installed solar and mini-wind facilities to power irrigation systems and worked with farmer cooperatives in the north and centre of the country interested in energy efficiency.

As for "anchor" companies – international operators with a major local presence – that's where you start to see all these programmes come together, says Miguel Aldaz, of the IDB's office of outreach and partnerships. "It's not only in regulatory matters where the government has an impact, but also in implementation of services where we see the joining of public and private at its most effective," Aldaz says.

Companies such as Microsoft, SABMiller, PepsiCo, Nestlé and Wal-Mart are now all working with the bank in pilot programmes that Aldaz refers to as "multistakeholder entrepreneurships". They rely upon private sector innovation in matters of logistics, marketing and skills training (see box).

"The big issue we find is in building trust," Aldaz says. "There is a lack of trust and familiarity among players. That is where we come in – as a neutral institution which is on the ground with local offices helping to identify opportunities and manage risk and ultimately bridge differences." ■


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Case study: Brazil

Sustainable biz with a Brazilian buzz

By Dom Phillips in Rio de Janeiro

There are signs that the sustainability movement is suddenly gathering pace in Brazil, but filtering out the noise can be difficult in this exciting economy

In Brazil's booming economy, sustainable business, and an awareness of the importance of corporate responsibility, are gaining footholds.

"There is no way back," says Vivian Blaso, a professor at the Fundação Armando Alvares Penteado university in São Paulo, who runs her own sustainable business consultancy, Sustainable Conversation.

Business in Brazil certainly wants to be more sustainable and will spend money to achieve that goal. "The field has changed a lot in the last two years," says Andre Degenszajn, general secretary of the Institutes, Foundations and Companies Group (Gife), a non-profit network working in social investment since 1989.

"When Gife was created there was the idea that social investment should be different to the business of the company," Degenszajn says. "This paradigm has been broken. Today companies want to align social investment with their business."

Ricardo Voltolini, director-president of the São Paulo consultancy Ideia Sustentável, which works with business leaders on business strategy, argues that the change is even more far-reaching.

"We have had a migration to sustainability in business management," he says. "It is as if corporate responsibility was [isolated], then everything changed so that sustainability in business management started to have a central role in strategic plans."

Local leaders

Voltolini highlights Brazilian cosmetics brand Natura as a leader in sustainable business practices, but also cites packaging multinational Tetrapak and Brazilian petrochemicals giant Braskem – which have collaborated to produce a "green plastic", made from 75% recyclable materials. Aluminium giant Alcoa, Brazilian eucalyptus pulp producers Fibria, consumer goods multinational Unilever, global energy company AES, and Brazilian steel, cement and energy group Votorantim are also on his list.

According to a Gife census in 2012, the 100 organisations associated with the group (including both foundations and companies) either invested or donated a total 2.36bn real ($1bn), up from 2.2bn real in 2011.

Degenszajn says that in Gife's experience, investment in corporate responsibility related projects and programmes have merely kept pace with inflation (which was running at 6.3% in July 2013). "There is no major growth in investment," he says. But business is thinking in broader terms about sustainability. "[A typical] company is thinking less about its immediate area and more about wider concerns of society and the world," Degenszajn says.

Degenszajn cites two examples: Wal-Mart and Brazilian group Camargo Corrêa.

First, Instituto Wal-Mart's Bombando Cidadania Citizenship programme in the low-income Bomba do Hemeterio district of Recife, in Pernambuco state, north-east Brazil was launched in 2008 and is involved in a wide range of activities from health and cultural development to education and income development.

Total Wal-Mart investment in the project amounted to 3.84m real ($1.64m) – with partners that included local NGOs and organisations such as small business agency Sebrae. Including partners, investments reached 5.6m real. In one survey

"We have had a migration to sustainability in business management"
Ricardo Voltolini, Ideia Sustentável

included in the report, 94% of those who had participated in the programme say their lives have changed in some way as a result of the programme.

From 2007, InterCement, part of the Camargo Corrêa group, began a new social programme in the middle-income city of Pedro Leopoldo, where it has a plant. Educational and family values were prioritised in projects that included training infant teachers, health education for pregnant women, and sport, leisure and culture for an "ideal childhood". Both NGOs and local government have participated.

The plant's "favourability index" – which measures how the workforce regards the company – increased from 47 in 2006 to 76 in 2010, while productivity and employee retention levels also increased, according to a report produced by the Fundação Dom Cabral business school. The report concluded that the relationship between community and company had improved significantly since the social projects began.

Blue sky thinking

Drinks multinational Anheuser-Busch InBev has a worldwide commitment to sustainability – the company claims a 2012 recycling rate of 99.2% and has a wide range of sustainability programmes across the globe. In 2010, its Brazilian arm, AmBev, launched Cyan Movement, a wide-ranging series of initiatives around water resources, conservation and management.

Business is thinking in broader terms about sustainability

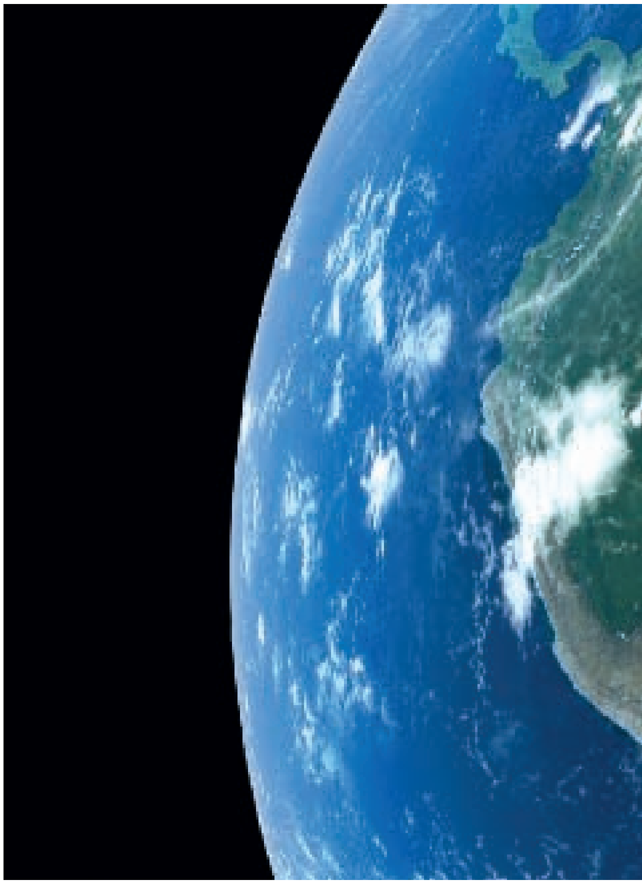
"Cyan Movement is an umbrella for various initiatives to protect water on the planet," says Ricardo Rolim, director of corporate responsibility at AmBev.

This "umbrella" includes a website dedicated to news about water initiatives, the Banco Cyan that encourages water saving, and two projects with international NGOs to improve water supply and cleanliness in water basins near Brasília and São Paulo where the company has breweries.

"We have a long history of working in water basins around the world," says Bert Share, senior global director, beer and better world, at Anheuser-Busch InBev in the US. "Our company dream is to be the best beer company in a better world."

The project is illustrative of some of both the strengths and weaknesses of corporate responsibility in Brazil. Cyan Movement is ambitious in its scope but on some levels it is difficult to get past the corporate rhetoric and measure actual achievements to date. There is a lack of both transparency and reporting that is representative of the corporate responsibility sector in Brazil as a whole.

Clearly water is an attractive area for AmBev. Share says that as it is the company's key ingredient there is a clear commercial advantage in working on water cleanliness and supply in basins in Brazil where AmBev has breweries. "This project fits nicely into our better world strategy," Share says. "It's important to have a good fit with the company and it needs to have that good fit with the brand as well."



Enormous sustainable natural resource use potential

Its success can most clearly be measured with Banco Cyan, which in 2012 began offering reward points with local brands for customers who saved water on their bills in São Paulo, Rio de Janeiro and Uberaba in Minas Gerais. There are 3,500 people participating, AmBev's Rolim says, who gain online discounts from companies such as Blockbuster and Brazilian retailer Americanas. By July 2013, almost 300m litres of water had been saved.

Since 2010, Ambev has also worked with WWF at the Corumbá-Paranoá Basin, which provides water for its Brasília brewery. Work includes schemes to educate the local population about water conservation, though courses at the brewery and reading material. AmBev says 7,000 people have been engaged "through capacity building activities".

A nursery has been built at the Brasília brewery to grow 10,000 saplings, and 5,200 trees have already been planted. A local water basin committee has been established and "60 members have been trained on water governance", AmBev says. But there is no data available on what improvements, if any, there have been to either water quality or quantity. Neither would AmBev divulge information on investments.

"As it is long term, there is not a figure from one year to the other," Rolim says.

In March 2013, AmBev expanded its water basins project to the Piracicaba, Capivari e Jundiaí basin

HEMERA

A lack of transparency and reporting is representative of the corporate responsibility sector in Brazil as a whole

which supplies water to AmBev's Jaguariuna brewery. Here the company has partnered with US NGO The Nature Conservancy on a project that will map rural producers that by conserving their land can guarantee water production and supply.

These producers will in future be recognised as "water producers" and paid for the conservation of their land. It is a project with particular relevance in Brazil – where issues of forest protection and conservation have particular importance.

"Fundamentally it recognises that the rural producer should be remunerated for conservation and restoration," says Fernando Veiga, water security manager for the Latin American region for The Nature Conservancy. "When you conserve and restore you are contributing to the improvement of water."

AmBev, Rolim says, is paying for the mapping. But, the company does not divulge how much it has invested in the three years of the Cyan Movement project. In contrast, its 2012 corporate responsibility report has detailed information about other projects it runs in Brazil.

For instance the report gives extensive detail on its Zerrenner Foundation, which supports Brazilian employees and dependents – which it says in 2012 "invested 200m real [$102m] that benefited some 79,130 people throughout the country". The report provides detail of the number of scholarships, food supplies, food baskets and Christmas toys the foundation gave out.

Marketing motives?

Prof Vivian Blaso says Cyan Movement's focus on water protection is laudable but suggests the company's main motivation may be marketing.

This is a bigger issue for sustainability actions and corporate responsibility in Brazil. "We have a long way to go in transparency," says Gife's Andre Degenszajn. "It can look like everyone is greenwashing. This can create a more negative vision of the sector."

Vivian Blaso cites recent moves in independent monitoring as steps in the right direction. In 2011, Conar, Brazil's National Council of Advertising Self-Regulation, expanded its guidelines on advertising that made sustainability claims.

In March 2012 a campaign by the São Paulo supermarket association Apas that aimed to stop customers using plastic bags was pulled because Conar judged it was misleading.

Blaso uses this example, and the growing importance of the Global Reporting Initiative, to argue that companies are becoming more transparent about what they are spending. "The mood of companies is to declare their actions," she says. And things are moving fast. "This year, this change will come." ■

BrandWatch

By Nadine Hawa

Pepsi's colouring concerns, policing YouTube ads and making sustainability profitable for coffee farmers

Pepsi's slow phase out of cancer-causing colouring

With headlines that could lead to commercial suicide, **Pepsi** is under renewed pressure after independent testing has once again found **carcinogenic** caramel colouring in its drink.

This comes more than a year after the drinks company pledged to review its recipe in a bid to phase out the cancer-causing chemical. However, upon testing samples of the product from 10 different US states, the **Centre for Environmental Health** (CEH) found that the Pepsi drink still contained harmful levels of the caramel colouring.

COSMONAUT/ISTOCKPHOTO.COM

Will Pepsi meet the latest colouring challenge?

Charles Margulis, spokesman at the CEH explains: "**4-Mel** is a chemical that the state of **California** has listed as known to cause cancer. It has been found in caramel colouring, as a by-product of the way companies have produced that ingredient."

In 2011, following the introduction of a California law (Proposition 65) that stipulates that products containing cancer-causing ingredients must be labelled, the world's rival giants **Coca-Cola** and PepsiCo, which together account for **90%** of the soft drinks market, pledged to **review their recipes**.

In the years that followed, Coke was found to have largely complied. However, cancer-causing chemicals in the caramel colouring of Pepsi was still found in products tested outside the state of California. Margulis says: "Pepsi decided to provide California retailers with cola produced with a **new formulation** of caramel colouring, but **has not done so** for the rest of the [US], as the company stated it would in March 2012. The company has not explained why it is taking so long, even while Coke has mostly changed its cola."

The assessment revealed that Pepsi products tested outside California showed levels of 4-Mel between **four and more than eight times** higher than California safety levels. "It's serious enough that I wouldn't let my kids drink Pepsi, at least not until we do more testing next spring," says Margulis.

In response to the study results, PepsiCo senior director Aurora Gonzalez confirmed: "4-Mel levels in our products in California are below Prop 65 levels. The rest of the US will be completed by **February 2014**."

Ikea's solar-powered refugee shelter

The hip child of furniture making, Ikea, through the charitable **Ikea Foundation**, has recently rolled out an innovative **shelter** for the world's **43 million refugees**.

Ikea's new **flat-packed solar-powered hut**, which takes four hours to assemble, boasts several advantages when compared with the traditional canvas tents commonly used as shelter for refugees. These range from being able to create its own electricity from **solar panels**, to offering refugees more protection, comfort and privacy.

IKEA FOUNDATION

Flatpacked lifesavers

Chris Williams of the Ikea Foundation explains that the innovation "will give refugees **dignity**, **safety** and the opportunity to rebuild their lives by providing them with a more solid, stable construction".

In addition, while UN-provided tents on average last about six months, the Ikea shelter is built to last for **five years**. At nearly 18 square metres it is also twice as large as the traditional refugee tent.

Ikea's innovation is made from lightweight plastic mounted on a solid steel structure. "It is important that the shelter is **lightweight** enough so that it can be easily and cost-efficiently transported, but strong enough to withstand the harsh conditions of refugee camps," says Johan Karlsson, project manager at Refugee Housing Unit, which is manufacturing the shelter components for the Ikea Foundation's design.

The new product is currently being deployed on the **Ethiopian-Somali** border, and in northern Iraq. There "the new prototype shelters will be tested by a sample of families who will give their feedback to help shape its development", Williams adds.

Nike's sustainable design app

With sustainability-related apps proving popular, **Nike** has joined the frenzy, recently launching a new app called **Making**. The app, which is available for free download, helps designers make informed decisions about the **environmental footprint** of the materials they choose when working on new creations.

It works by ranking materials used in apparel making in relation to four areas: **water**, **energy**, **waste** and **chemistry**. It also informs designers on whether a material uses recycled or organic content. For example, the app is able to tell designers that using triexta requires **59%** less water than using cotton.

By allowing designers to instantly compare and assess the potential environmental consequences of their choices, they are then able to choose lower impact options.

Lee Holman, Nike's vice-president for apparel design, says: "We've created the Making app to empower any designer around the world to make **better materials choices** in the initial stages of the innovation process, and to ultimately create products that are better for consumers and better for the planet."

The app is powered by data from the **Nike Materials Sustainability Index**, a database comprising more than seven years' worth of materials research and analysis.

Sustainable farmers earn more

Farmers taking part in the **Nespresso AAA Sustainability Quality Programme** in Colombia earn **87%** more than those who are not.

Such is the main take-away to emerge from a recent study by the Colombian organisation **Crece**, which analysed the impact that the Nespresso programme has had on the lives of coffee farmers in the South American country.

The programme was launched in 2003 in collaboration with the **Rainforest Alliance**. It encourages best practice among farmers in a bid to improve their livelihoods, their yields, coffee quality, and environmental conservation.

The study took place between 2009 and 2011, and involved more than 1,000 farmers, including more than 500 control group farmers. During those two years, the disparity between the social, environmental and economic differentials of AAA and non-AAA farmers grew continuously.

The findings suggest that Nespresso farmers are at least **seven times** more likely to employ waste-water management techniques than non-participants. It is also believed that their recycling rate is **50%** higher, with higher probability of employing **soil-conservation methods** on their farms.

Michael Sheridan of the Borderlands Coffee Project says: "Coffee certifications and corporate sustainability programmes such as Nespresso's AAA initiative have generated important **economic**, **social** and **environmental** benefits for farmers around the world. They have helped farmers access new markets, increase and stabilise incomes, build stronger community organisations, conserve water and soil, sink carbon and invest in a broad range of social projects."

To guarantee that farmers are paid a fair price, the Nespresso programme involves paying premiums for both **quality** and **sustainability**. "The premium is around **30%** to **40%** above the standard market price for coffee and **10%** to **15%** above coffees of similar quality," Nespresso spokeswoman Kelly Genton says.

Sheridan adds: "Our experience in Colombia confirms the Crece finding that farmers in the Nespresso AAA supply chain generally earn more than farmers who aren't." He adds, however, that Borderlands' experience "indicates that the price gap may be a bit narrower than the report suggests".

Currently, more than **56,000 farmers** are part of the AAA Programme and Nespresso is sourcing about **80%** of its coffee from AAA farms.

While both farmers and Nespresso seem to be benefiting from the corporate sourcing standard, Sheridan says **financial pressures** on farmers in Colombia remain. He says: "There are systemic pressures on the livelihoods of smallholder farmers that are not easily alleviated by certifications, sustainable sourcing programmes or even an 87% price premium. At the farm level, acute **land constraints,** changing **climate patterns**, and increased incidence and virulence of **pests** and **diseases** are structural threats." Sheridan points out that limited access to essential goods and services and persistent market volatility conspire to keep coffee income low and chronically unstable.

THINKSTOCK

Better beans mean 90% more farm cash

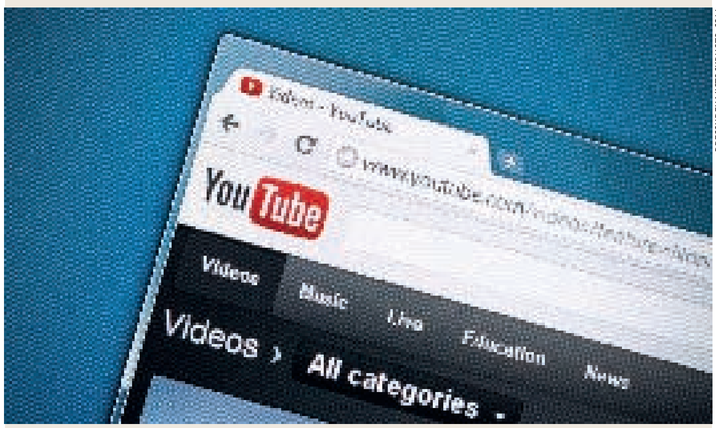
Google under attack for illicit ads

Internet powerhouse **Google** has come under attack in the US for allegedly making money from online ads on **YouTube** that promote **illicit activities** to viewers.

Google, which acquired the video streaming site in 2006, has been questioned by legal officials from both the US states of **Nebraska** and **Oklahoma**. The search-engine company has been asked to disclose the amount of revenue generated from these ads, as well as the measures it has put in place in order to monitor and repress such adverts.

Many of the videos in question showcase, and in some cases even promote, **dangerous** and **illegal** activities. One example instructs viewers how to buy prescription drugs without a prescription.

While YouTube is an open platform, some content, such as pornography, is monitored and prohibited. The video-streaming site has a number of review teams that work around the clock to **monitor** and **respond** to videos that have been flagged, deleting any content that violates YouTube policies or is deemed inappropriate.



PRESSUREUA/ISTOCKPHOTO.COM

Controlling the uncontrollable

With numbers reaching **one billion users a month** however, it is difficult to police the entirety of the content on the video-sharing website.

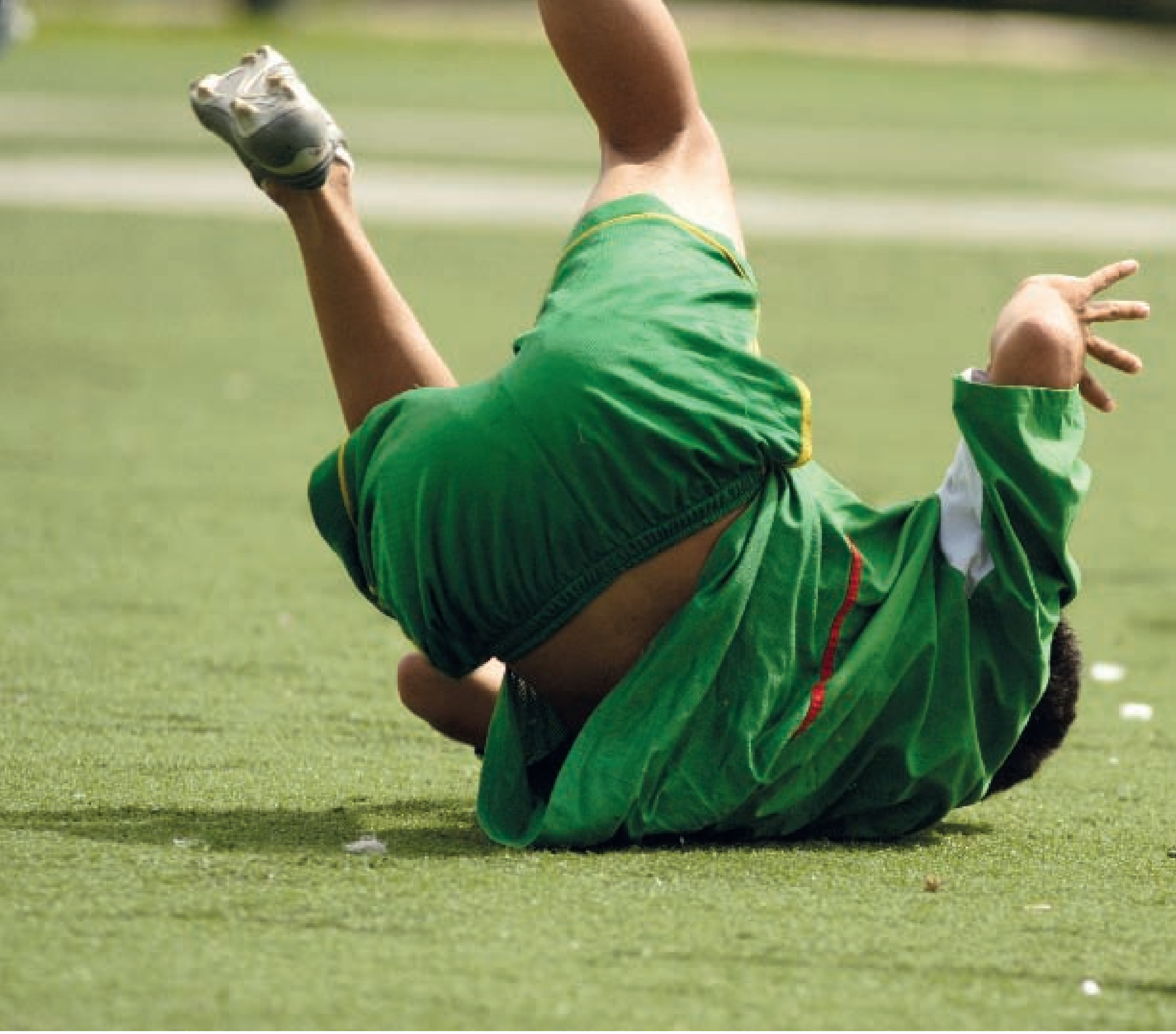
Of concern to the attorney-generals is the fact that Google appears to be actively seeking to **profit** by posting these types of ads on YouTube, a website known to be especially popular among the teen demographic.

These allegations are not new to Google. **Mississippi** state attorney-general Jim Hood recently criticised the search-engine for running ads of the very same nature. As a result, Google pulled several of these illicit ads from YouTube. The video site, however, is still rife with them.

Recycling saves GM big bucks

Waste reduction initiatives have saved **General Motors** $1bn over the past year. Through its reuse and recycling initiatives, the US car manufacturer claims to have been able to recycle **90%** of its global manufacturing waste. One of its many initiatives involves replacing wooden pallets with **reusable plastic**, allowing the company to save **566 tonnes** of waste. The automotive giant has also been able to achieve and run **105 landfill-free facilities** around the world, and is working to meet the target of 125 landfill-free facilities by 2020.

Additionally, GM says it has managed to reduce energy costs by **80%**, and as a result save $780,000 a year, through an energy conservation initiative at its US stamping plant in what is said to be the world's largest LED upgrade. ■



World football

Foul play

By Stephen Gardner

Critics say reforms at football's international governing body don't go far enough, after years of scandal and shadowy dealings

It was, said world football supremo Joseph "Sepp" Blatter, a "historic" decision. At its 2013 Congress, held in May in Mauritius, the 209 member associations of the Fédération Internationale de Football Association – better known as Fifa – voted overwhelmingly for a change to the organisation's statutes, thereby implementing a significant governance reform.

Blatter highlighted in particular that the revised statutes add for the first time a female member to Fifa's all-powerful executive committee. Other updates include integrity checks for executive committee members, a strengthened ethics code, and the removal from the executive committee of the right to decide on World Cup venues.

For critics of Fifa – and there are many – the reform effort, which began in 2011, has been a long time coming. It might have taken even longer were it not for two sets of events that effectively made reform unavoidable.

The first was an investigation by Swiss prosecutors that established that Blatter's mentor and

Fifa's reform efforts have been a long time coming

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predecessor as Fifa president, the Brazilian João Havelange, took bribes throughout the 1990s related to the granting of World Cup broadcast rights.

Havelange escaped prosecution, as commercial bribery was not a crime in Switzerland at the time. But Fifa could not escape the charge of institutionalised corruption, and Blatter, who was Fifa secretary-general under Havelange, was tainted by the scandal.

The second was controversy about vote-buying surrounding decisions taken in 2010 to award the 2018 and 2022 World Cups to Russia and Qatar respectively. The choices were made by Fifa's executive committee. Even before the committee voted on the venues, two of its members were suspended for alleged solicitation of cash for their votes, and media reports raised similar questions about other executive committee members.

In addition, some executive committee members were implicated in the 1990s broadcasting rights bribery scandal. Ricardo Teixeira, the former Brazilian Football Confederation chief (and Havelange's former son-in-law), and Paraguay's Nicolas Leoz, ultimately stepped down from the executive committee. Teixeira went in March 2012. Leoz managed to hang on until April 2013.

When governance reform could no longer be put off, Blatter tasked an independent governance committee (IGC) with the job of drawing up recommendations. The IGC is based in the Basel Institute on Governance, a non-profit anti-corruption organisation.

The IGC took the view that Fifa should conform to the standards of governance and accountability seen in the corporate world or in public institutions. Though Fifa is in principle responsible only to its member associations, the IGC noted that Fifa's accountability should extend to "millions and millions of fans and the public at large", and that its decisions have significant social and political implications – such as decisions to award World Cups to less-than-democratic regimes.

Fifa's decisions have significant social and political implications

Reforms in the net

In addition, Fifa carries out clearly commercial activities, such as the sale of broadcast rights, and takes decisions that affect companies, in particular to limit competition at World Cup venues, for example by permitting only certain brands of beer to be advertised and sold. And Fifa gets its revenues tax-free.

Alexandra Wrage, president of Trace International, an anti-bribery association for multinational companies, and a former member of the IGC, points out that this means Fifa is "in effect subsidised by the public. The leadership should be more willing than for-profit companies to embrace best practices and to demonstrate that the organisation merits that privileged financial status."

The IGC has published two sets of recommendations to Fifa. The main changes that the organisation has made in response are to strengthen its ethics committee so it is more able to investigate alleged breaches, and to require top officials, such as the president and executive committee members, to undergo integrity checks before their election or re-election. Fifa has also reconstituted its audit committee into an audit and compliance committee, with more power to check Fifa's financial accounting.

Fifa has also taken decisions on World Cup hosts out of the hands of its executive committee. The committee will still play a role by drawing up a shortlist of three candidates, but the final decision will be taken by a vote of the Fifa congress. Future World Cup decisions will be taken one at a time, unlike in 2010, when the Russia and Qatar decisions were made simultaneously.

In a statement to Ethical Corporation, Fifa says the organisation "will continue adjusting its governance in the future, but overall the reform process

Fifa's finances

Fifa is notoriously **opaque** about its finances, especially the pay of executives and senior staff. The information that it does disclose suggests that Fifa is a very rewarding place to work. Its latest annual report notes that its 2012 personnel costs were **$91m** for about **400** staff, or about $220,000 (£142,000) per head. It spent an additional **$32m** maintaining its committees, including the 24-member executive committee.

Mohamed bin Hammam, an executive committee member until his suspension in a spat with Blatter, has disclosed that he received **€200,000** for committee work in 2010 – the executive committee might only meet twice a year. Blatter's remuneration is not publicly known, and Fifa has no equivalent of a corporation's remuneration committee that sets out the remuneration framework.

Fifa's **social and political clout** greatly outweighs its economic size. Compared with major corporations, it is a minnow, with revenues of **$1.17bn** in 2012. Fifa also sits on a **$1.4bn** cash reserve, which it says it needs to protect it "against risks and unforeseen events, in particular in relation to the Fifa World Cup".

has already greatly reinforced Fifa's ethics and transparency".

However, Fifa has declined to enact a number of the IGC's suggested reforms. Fifa's governance, and the degree of transparency it offers, remain out of step with standards in the corporate world.

Alexandra Wrage, who resigned from the IGC in April 2013 because she believed its proposals were being undermined, says Blatter's reform process "has resulted in a number of improvements, but some of the most important steps – the steps that would do the most to restore public confidence – have been ignored or set aside. In the end, that detracts from the progress made and it breeds cynicism."

Reforms red-carded

Among the list of changes that Fifa has not made are term and age limits for the senior leadership (Blatter is 77 and in his fourth term as president), though Fifa says it may decide on these at a future congress. Fifa has also decided to remain opaque on remuneration for the president and executives, a long-running sore point for critics who have been unable to pin down the rewards enjoyed by Blatter and other high-level personnel (see box on Fifa's finances).

Fifa remains opaque on remuneration for the president and executives

Fifa has only partially implemented an IGC recommendation that nominees for the Fifa executive committee should have their integrity checks carried out by the Fifa ethics committee. The ethics committee will carry out the checks on the Fifa president, but executive committee members will be vouched for by the confederations that nominate them. The confederations, arguing that centralised integrity checks were an unnecessary duplication, vetoed any change in this respect.

This, according to Wrage, is a failure of the reform process. She says that "embedding [of] independent oversight of the executive committee in the statutes", is one of the major reforms that Fifa should still make.

However, in a statement to Ethical Corporation, the IGC says the non-centralised integrity checks on executive committee members could work. The integrity check system "will be developed with the support of professional due diligence experts" and "can be effective if implemented correctly", the IGC says.

Fifa has disconnected with the fans

Despite the reforms, overall power at Fifa remains highly centralised, in the hands of the president. It is almost impossible to remove the president outside the four-yearly elections by the Fifa congress. Fifa has no equivalent of non-executive directors to provide input on the performance of senior management, and no formal involvement of groups that are affected by its decisions, such as sponsors or supporters.

Daniela Wurbs, coordinator of fans' group Football Supporters Europe, says there is almost no contact between supporters and Fifa. There is "no proactive interest on the part of Fifa to seek dialogue with supporters", she says. "We feel that the influ-


ISTOCKPHOTO

There is "no proactive interest on the part of Fifa to seek dialogue with supporters"
Daniela Wurbs, Football Supporters Europe

ence fans can have in terms of structural change is limited." Supporters want "much more substantial" reform, and until it happens, Fifa will continue to be "largely perceived as non-transparent, corrupt and not well governed".

Little pressure to go further

Fifa's reforms will be tested when high-profile decisions have to be made, such as the venue for the 2026 World Cup. Fifa says it has not yet decided when this decision will be taken. It adds that "requirements for the bidding and hosting as well as criteria for selecting the host of the event are still being finalised for the next Fifa World Cup bidding process".

In the meantime, organisations and groups that could bring pressure to bear on Fifa to reform further are saying little. Fifa's sponsors make up one such group. Alexandra Wrage says: "I am not aware of any organised effort by sponsors to encourage reform at Fifa and I believe companies could be a powerful voice. They have an incentive, too, to ensure that their marketing dollars are associated with positive, inclusive international events."

Fifa has long-standing relationships with six "partners", and has a number of sponsors and national commercial backers for World Cups. Its partners are Adidas, Coca-Cola, Emirates, Hyundai, Sony and Visa.

Adidas says: "Our relationship with Fifa dates back to 1970 and they continue to enjoy our full support … we do not comment on speculation or conjecture and are not in a position to comment on internal reforms within the Fifa organisation".

A Visa spokesman says: "Matters of Fifa opera-

A murky world

January 15 2009: Fifa invites applications from potential hosts for the **2018** and **2022** World Cup finals.

October 20 2010: Fifa ethics committee suspends two Fifa executive committee members, **Amos Adamu** (Nigeria) and **Reynald Temarii** (Tahiti) over allegations that they offered to sell their votes on the 2018 and 2022 decisions.

December 2 2010: Fifa executive committee decides to award the 2018 World Cup to **Russia**, and the 2022 tournament to **Qatar**. Following the decisions, allegations about high-level corruption within Fifa continue to be made.

May 10 2011: Lord Triesman, a former chairman of England's 2018 World Cup bid, tells a British parliamentary enquiry that Fifa executive committee members **Nicolas Leoz** (Paraguay), **Worawi Makudi** (Thailand), **Ricardo Teixeira** (Brazil) and **Jack Warner** (Trinidad and Tobago) solicited bribes ahead of the 2018 decision.

May 29 2011: Jack Warner and **Mohammed bin Hammam** (Qatar) suspended from Fifa executive committee over vote-buying. Bin Hammam had challenged Fifa president **Sepp Blatter** for the organisation's leadership, but withdrew his bid.

June 1 2011: Blatter starts Fifa governance reform process. **Independent governance committee** (IGC) set up.

March 12 2012: Ricardo Teixeira resigns from Fifa executive committee, citing poor health.

March 30 2012: IGC submits first report to Fifa. Recommendations include strengthened **ethics committee**, stronger **financial controls**, and **independent vetting** of nominees for senior Fifa positions.

April 22 2012: IGC member **Alexandra Wrage** resigns because of concerns that IGC recommendations will be undermined.v

July 11 2012: Swiss court documents are published showing that former Fifa president **João Havelange**, and former executive committee member **Ricardo Teixeira** (who was also head of Brazil's successful 2014 World Cup bid) took **bribes** during the 1990s for the granting of broadcast rights.

February 8 2013: IGC publishes a second set of recommendations to Fifa, and says it is "disappointed" at the **watering down** of some of the reforms, such as independent integrity checks for Fifa executive committee members.

KOJOKU/DREAMSTIME

Sepp Blatter has had a bumpy ride

April 24 2013: Fifa executive committee member **Nicolas Leoz** resigns.

April 30 2013: Fifa ethics committee publishes **report on bribery** for broadcast rights under Havelange, concluding that "it is certain that not inconsiderable amounts were channelled" to Havelange, Leoz and Teixeira.

May 31 2013: Fifa **amends statutes** and says that governance reform has been largely completed.

tions and governance are most appropriately addressed by Fifa and not by their sponsors. We value our relationship with Fifa as it is based on our shared equities of market leadership, global ubiquity, acceptance and public awareness. As a Fifa partner, our focus is on planning for the upcoming Fifa World Cup in Brazil."

Emirates and Coca-Cola declined to comment, and Hyundai and Sony did not respond to requests for comment.

England's Football Association takes a similar line to the sponsors. In a statement, the FA says: "We welcome the recent efforts to governance reform [sic] and believe that they represent good progress. The changes agreed will increase both openness and accountability within Fifa. The FA will be working through its confederation Uefa to consider any further proposals on Fifa governance reform to be brought forward in the upcoming season."

Qatar controversy

However, Fifa might not necessarily have the luxury of deciding on further governance reform at its own pace. Its lack of decision-making transparency is likely to be in the spotlight again as it tackles the legacy of its choice of Qatar as the host of the 2022 World Cup.

A decision is pending about the suitability of Qatar as the venue for a summer tournament. Blatter has said he will ask the Fifa executive committee to switch the 2022 World Cup to the winter, to avoid the desert state's searing summer heat. Greg Dyke, the incoming chairman of the English FA agrees, saying in early August that he thought a summer tournament in Qatar would be "impossible" for the fans.

A winter World Cup could trigger challenges from European football associations, which do not want their seasons disrupted, and could lead to calls to switch the venue. One Fifa executive committee member, Theo Zwanziger, who joined the committee after the Russia and Qatar decisions, broke ranks at the end of July and called the choice of Qatar a "blatant mistake".

Speaking to Germany's Sport Bild newspaper, Zwanziger also said the decision on Qatar had violated fair procedures. This might give grounds to re-examine the decision.

For Blatter, this could be the worst-case scenario. He hoped to reassure the world of football about Fifa's probity with the 2011-13 reform process. A reopening of the 2022 World Cup award decision could bring the issue – and Blatter's own position – back to the fore again. ■

A winter World Cup could trigger challenges from European football associations

Letter from the mid-Atlantic

Clarity please

When corporate leaders appear to lack the thinking needed to solve major challenges, it might actually be because they lack the ability to express themselves, says Peter Knight

ISTOCKPHOTO

Writing's easy, right?

Have we lost the ability to write? Is this blocking business from putting forward good ideas about sustainability?

Words, spelling and grammar continue to make news. The mandarins in the UK civil service have been banned from using certain words and phrases. They must not use "drive" unless writing about vehicles and products; can't use "deploy" unless writing about the military; and "going forward" is forbidden. Quite right.

The Harvard Business Review recently carried a blog by a publisher of technical manuals arguing that business should only hire people who can write well. Confusion caused by bad writing, he says, leads to mistakes and poor business performance.

But why should poor writing prevent business from contributing to sustainable development thinking? Because until you write well you won't have good ideas. Writing is not only about expression – it's the pathway to the origination of the ideas themselves.

Governments set the policy frameworks; academics think creatively; business thinks in practical terms – solving problems with sensible plans and effective actions. As they say, if you want to get a vaccine up a mountain, don't ask the World Heath Organisation, call Coca-Cola.

Business has a vested interest in solving world problems and, in turn, the world needs business to think leading thoughts. This is because we live in a disrupted world, entirely of our own making. Digital processes are destroying trusted business models and reorganising the commercial furniture. Climate change is doing similar things with the boardroom table.

While the disruption causes pain for some (especially the poorly educated), it is creating huge opportunities for others. We may not often think so, but the educationally privileged who read this magazine are living in boom times. We're probably the richest we have ever been and are facing opportunities that could make us even richer: as long as we can take the poor and economically excluded with us. That is called sustainable development, and business has the knowledge and reason to contribute.

Companies need to think of ways to improve life for the many, and in so doing improve their own fortunes. Most in business find this a surprisingly difficult idea to grasp, but there are deeper-thinking chief executives who are leading their companies in the right direction.

Risk management

It's happening, for example, in the food and fibre supply chains, especially cocoa and cotton. Chocolate makers, for example, know they will not have a product in the near future unless they help sort out the social and environmental problems restricting the supply of cocoa. The same goes for cotton.

True thought leaders know that business must also find the gold at the base of the pyramid. This is the idea that so fascinated the business community a few years ago: making high quality affordable products for poor people and thereby drawing millions into the cash economy. Companies will have to return to the task if they are really to reap the benefits of emerging markets.

Little, if anything, is heard from business on this topic. Actually, it's really difficult to find sustainability thought leaders in business. Very few companies have blogs that offer pioneering ideas. Most of the ideas that are promoted on TED and other platforms – Quora, Medium et al – are generated by academics and entrepreneurs who sell ideas rather than products or services. And as for LinkedIn groups – naked self-promotion has totally devalued their currency.

Business should only hire people who can write well

Is this dearth of thought simply because business does not have ideas, or because it can't articulate them? The inability to write things down clearly has to be a contributing factor.

My company thinks and writes for business. We know how hard it is to write well and to find people who can write. This is becoming more difficult as millennials emerge from far too many years of further education with little capacity – or desire – to write clearly.

The death of long-form writing and reading – as opposed to tweets and Facebook postings – makes it difficult to develop and articulate ideas. This is because the act of writing is the pathway to developing clear thinking and good ideas.

And herein lies another opportunity. Businesses that can develop great ideas and write them down clearly are in a winning position – not only for the execution of the idea (you have to be able to tell your own people) but also for your reputation as an innovator and thought leader.

And such a reputation can be dramatically enhanced if the ideas help make the world a better place. ■

COLUMNIST: PETER KNIGHT

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Corporate responsibility cheat sheet

By Oliver Balch

We read all the new research and reports so that you don't have to

Global perspectives on responsibility

Four in 10 employees in 24 countries say it is "very important" for their own employers to be "**responsible to society and the environment**". Of the 18,150 adults interviewed by polling company Ipsos, 25% said local **community investment** was a top

Four in 10

employees in 24 countries say it's "very important" for their own employers to be "responsible to society and the environment"

priority for firms. The issue just beat respecting local laws (24%). Nearly two-thirds of respondents "strongly agree" that companies should be doing more to **protect the environment** and **52%** that companies should contribute to society. The vast majority of workers think it is either "very important" or "fairly important" that their employer is responsible.

The findings reveal a distinction between concerns in developed countries and those in developing countries. Workers in the latter feel companies should be contributing more to society. The top countries holding this position, for example, are **Turkey**, where 85% give this response, **Brazil (78%)**, **Saudi Arabia** (78%) and **Mexico** (76%). In contrast, the majority of those in **Japan** (78%), **US** (67%), **UK** (66%) and **Australia** (66%) feel companies are doing enough.

http://ipsos-na.com

Organisation snapshots

Real estate emissions

Buildings account for **41%** of primary energy consumption in the US, more than the transport (**29%**) or industrial (**30%**) sectors, according to a new case study report by the **World Business Council for Sustainable Development**. Goals set at the federal and state levels, such as Better Buildings (federal) or New York State's Build Smart initiatives, aim to increase energy efficiency by **20%** by 2020. Based on interviews with 423 building sector executives, the research finds that more than half (**56%**) of respondents expect to recover the investment costs of green retrofits on commercial properties within three years.

www.gbpn.org

EU consumer labelling

The **European commission** has set out to improve environmental labelling over recent years, but considerable work remains to be done to convince the public. Only **52%** of consumers trust producers' on-package claims with respect to products' green performance, a new study finds.

The percentage is even lower (**46%)** for those who trust internal reports about companies' environmental performance. Belief in the veracity of eco-labels is highest in Portugal (**84%**), Malta (**82%**) and France (**81%**), and lowest in Germany (**44%**), Romania (**46%**) and the Netherlands (**47%**).

Despite widespread scepticism, the European commission's study of more than 25,500 EU citizens found that more than three-quarters of Europeans are willing to **pay more** for environmentally friendly products. That said, only 55% say they feel informed about the environmental impacts of the products that they buy and use. The commission issued a Communication on Building the Single Market for Green Products in April 2013.

http://ec.europa.eu

Food insecurity

The number of **food-insecure people** is expected to remain more or less stable in 2013, at **707 million**, increasing only three million on 2012's figure, according to a report by the **US Department of Agriculture**. The study estimates that **20%** of the population in its sample of 76 low- and medium-income nations will suffer food insecurity in 2013. That number jumps to **29%** in sub-Saharan Africa, increasing to **34%** in 2023. Asia accounts for 22 of the 76 countries studied, but nearly two-thirds of the sample's overall population and **57%** of the total food insecure population.

According to the World Bank, the world will need to produce **70%** more food for the planet's growing population by 2050. Demand for global agricultural imports is pushing up prices. The three highest gains on the Food and Agriculture Organisation's food prices index since 1992 have occurred within the past five years. Countries are expected to spend **$1,094bn** buying food in 2013, up fractionally from **$1,092bn** in 2012.

www.ers.usda.gov

£100bn prize for better business

UK business could secure **£100bn** in annual **productivity gains** generated by innovations designed to address environmental and social challenges, according to a new report, Fortune Favours the Brave. The biggest win is around **resource efficiency**. Companies can generate annual savings of **£61bn** by scaling resource efficiency and energy efficiency initiatives, as well as through the use of cleaner technologies, the report finds.

Another money spinner is the so-called "**closed loop**" process. This approach, which centres on **reusing** and **recycling** raw materials in products, could land UK consumer goods firms with annual savings of between **£15bn** and **£18bn**. The report,

Companies can generate annual savings of **£61bn** *by scaling resource efficiency and energy efficiency initiatives*

which was published by **Accenture**, **Business in the Community** and **Marks & Spencer**, notes that the UK market for clean technology and circular economy services has grown an

estimated **24%** and **18%**, respectively, over the past five years.
www.accenture.com

UK corporate donors list

The UK's largest companies gave about **£600m** (£470m in actual cash, with the remainder "in kind") to UK charities and community organisations

The UK's largest companies gave about **£600m** *to UK charities and community organisations in 2012*

in 2012, a **drop of 27%** on 2011. The figures, which are based on the Directory of Social Change's analysis of the country's top 418 corporate givers, indicate that corporate donations make up about **2%** of the voluntary sector's total income (with the public and statutory source accounting for **43%** and **37%**, respectively). Total company giving in the UK is put at between **£700m** and **£800m**. As a percentage of pre-tax profits, the average charitable spend of the UK's largest corporate givers is **0.4%** (or 0.3% in terms of cash only) – well below the 1% generally taken as a touchstone percentage.

Company insights

Facebook's footprint

Posting messages and uploading photos onto the social media site **Facebook** results in about **3.5kg of CO_2 emissions** per user per year, according to new data from the California-based firm. Facebook says the carbon impact of each of its **1.1 billion** or so users equates to the emissions produced by drinking one latte coffee per month.

Across all its operations, Facebook's total energy use from office space, data centres and other facilities reached about **704m kWh** in 2012, up from 532m kWh in 2011. Its energy use for 2012 represents 384,000 tonnes of CO_2e emissions in 2012. Facebook uses clean and renewable energy for 19% of its energy needs, down from 23% in 2011 and below its 25% target for 2015. Coal (34%), natural gas (22%), nuclear (22%) and uncategorised power bought on the spot market (10%) make up the remainder of its energy supply.
www.facebook.com

GE raises research spend

Last year, **GE** invested nearly **$2bn** in research and development for sustainability innovation, and generated some **$25bn** in revenue, according to the company's 2012 **Our Global Impact** update. The lion's share of the R&D spend went on the company's "**ecomagination**" technologies.

GE is committed to invest **$10bn** on its ecomagination programme between 2010 and 2015. The US firm also reports a **32%** improvement in energy intensity (measured as energy/$ revenue) since its baseline year in 2004, and a **46%** reduction in freshwater use since its 2006 baseline. Its employees' charitable contributions in 2012 amounted to $219m overall.
www.ge.com/globalimpact

Dell weighs in on packaging

Dell has succeeded in making **76.1%** of its desktop and notebook packaging material compostable or recyclable, up from **53%** two years ago. Among the recent innovations developed by the IT firm is a novel bioscience method that uses mushrooms in product packaging. The sustainability component of its cushioning and corrugated packaging, meanwhile, currently stands at **42%**. Dell also announced in its recent annual corporate responsibility report that it has reached its goal – set in 2008 – of collecting **one billion pounds** (450,000 kg) of e-waste. The US firm currently recycles or reuses **96%** of all waste. Of the 859.1m kWh total energy that Dell uses annually, **22.6%** is classified as "green".
http://i.dell.com

The generosity of UK plc is far from balanced, with **90%** of cash donations made by **20%** of companies. Likewise, the geographical spread is skewed. Companies tend to give disproportionately to their local areas, with southern regions therefore benefiting much more than their northern peers (where fewer businesses are based, but where social problems are greater). For example, the **West Midlands** only received **1%** of total corporate giving, despite 21.4% of the area experiencing income deprivation. In contrast, **Greater London** attracted **33%** of total corporate giving, although income deprivation affects only 17.7% of the UK capital.
www.dsc.org.uk

Workplace improvements pay off fast

Capital investment targeted at improving working conditions can pay off within four to **20 months**, according to a new report by financial services firm KPMG. The report, which is based on data from 70 factories and 99 academic studies, also identifies margin improvements of up to **0.4%**

Capital investment targeted at improving working conditions can pay off within **four to 20** *months*

in profitability – a significant figure given that net margins are typically 1%-2%.

The report cites a previously published regression analysis that shows how introducing a package of workplace interventions can reduce staff turnover by **40%**. Similar research shows that a "bad boss" increases staff turnover by **25%**.
www.idhsustainabletrade.com ■

GDP v GPI

What price progress?

Quantifying development in a way that counts the costs of growth can help challenge conventional thinking, but is never going to be an exact science, says Jon Entine

Vermont, the New England state known for its pristine countryside, robust farming community and affluent skiers, is on the skids. But what's the story behind this turn of events?

Last year, the Vermont legislature mandated the University of Vermont to prepare an annual "Genuine Progress Indicator". The GPI is a quality of life statistic that proponents claim measures the broad economic and social health of a community more accurately than gross domestic product (GDP), the worldwide standard for assessing economic progress.

According to the first ever Vermont GPI, the state is doing terribly, with GDP overstating social welfare by more than 50%. That causes head scratching for many in Vermont, which has burst from its rural constraints over the past two decades to become a growth leader – at least according to traditional measures.

But GPI advocates will have none of this talk about economically salubrious times. Vermont is in the vanguard of an emerging international conversation about how to measure wellbeing. GDP is a relatively crude calculation constructed using dozens of assumptions. It has the attractiveness of being a number that governments can compare from year to year. But critics have long maintained it does not consider social and environmental factors.

GPI proponents sought to account for "hidden" welfare issues in 26 social and environmental categories, such as pollution, crime and ozone depletion, and for soft beneficial activities such as housework, the cost of family breakdowns, volunteering and demands on parenting time. But as the ethical investment movement learned over the past two decades, assigning hard numbers to value-laden social issues is a squishy enterprise.

Many of these issues are not incorporated in GDP measures. But that's for a reason, traditionalists say: many GPI categories have fragmentary or no data, which lead researchers to formulate new statistical frameworks that are extremely subjective and value-laden.

The index is unabashedly ideological, a fact underscored in a study released this summer by the Australian National University in Canberra. Researchers compiled estimates of GPI since 1978 for 17 countries, more than half the world's population. During this period, China, Korea, India and Brazil experienced double-digit yearly GDP growth; the African continent and the poorer parts of Latin America and Asia stirred economically; global standard of living indices soared; and life expectancy rose by double digits. World poverty rates have been cut from 42% to 15% in less than 20 years, lifting half a billion people out of subsistence level existences.

What does GPI say about what by traditional economic measures has been a global golden age? Forgetaboutit.

Downward trajectory

The Australian researchers released their dour conclusions with a straight face. According to this controversial index, 1978 marked a high-water mark of international prosperity, and collectively we've been steadily sliding downhill ever since. In particular, they pointed to growing inequality of incomes (even though the incomes of the poor have risen along with the incomes of the more affluent, just not as fast) and environmental degradation as the biggest factors dragging GPI down.

A failing state? Really?

Let's be honest: GPI has yet to shed its training wheels. Like ethical investing, it's a brilliant concept. It's already served to challenge some fossilised views of what constitutes economic and social welfare. That's helped encourage a conversation that those of us who care about social and environmental issues have maintained is long overdue.

No single number can capture the complex relationship between economic and social factors

But these kinds of indices were forged during an extended period of pessimism when the world was awakening to the rough edges of capitalism, particularly the environmental costs of growth. These are the same forces that have shaped the anti-globalism movement and there are strains of it in the zealous reaction against an array of new technologies, including fracking, synthetic biology and genetically modified crops and foods. It's grounded in well-meaning concerns but also reflects a deep-seated fear of progress.

No single number can capture the complex relationship between economic and social factors. And yes, the last thing we need is a Panglossian view of the economy that leaves large swaths of the world population vulnerable. But let's be cautious before we adopt quirky measures that by targeting innovation end up demonising growth in the name of progress. ■

COLUMNIST: JON ENTINE

Jon Entine is a senior fellow at the Center for Health & Risk Communication at George Mason University, and founder of the sustainability consultancy ESG MediaMetrics.

NGOwatch

By Nadine Hawa

Conflict minerals in supply chains, FSC rules breached in Asia and WWF and Coke expand cooperation

Nintendo under fire over conflict minerals

Electronics manufacturer **Nintendo** is facing mounting pressure from human rights activists over its use of **conflict minerals** in its gaming consoles. The Japanese company is being urged to take steps to eliminate the use of the minerals in its production process, while activists are also calling for the improvement of its **accountability** and **transparency** levels.

All electronic devices require the use of minerals in their manufacturing. In Nintendo's case, it is alleged that some of these minerals are being sourced in the mines of **eastern Congo**, many of which are directly linked to the violent conflicts that have engulfed the region over the past 15 years.

In 2012 the **Enough Project**, one of the many organisations working to raise awareness of conflict minerals, published a report that indicated that, when compared with other major electronics companies, Nintendo's record ranked poorly in relation to conflict minerals use.

Sasha Lezhnev, senior policy analyst at Enough and co-author of the report, says: "Nintendo has made **no known effort** to trace or audit its supply chain."

Minerals mined in eastern Congo can be difficult to trace back as they tend to pass through extensive lists of go-betweens while being shipped

PINKTAG/ISTOCKPHOTO.COM

Violent conflict isn't so super, Mario

out. For that reason, the **US Conflict Minerals Law**, which was passed in 2012, applies to materials originating from eastern Congo as well as its nine neighbouring countries.

While American electronics companies are now legally required to verify and publicly disclose their sources of tin, tantalum, tungsten and gold (often referred to collectively as 3TG), Japanese electronics companies are not yet subject to such legislation.

WWF and Coca-Cola expand sustainability partnership

Conservation group **WWF** and **Coca-Cola** have announced the extension of their existing partnership to 2020.

Ian Morrison, WWF spokesman, remembers that "six years ago we announced a transformational partnership to conserve freshwater resources around the world". As water continues to hold strategic priority as the main ingredient in every Coca-Cola product, by renewing their partnership the two organisations "are working together to address the natural resource challenges that impact fresh water" Morrison says. The aim is to "accomplish **five goals related to water efficiency**, freshwater conservation, carbon emissions, renewable packaging and sustainable sourcing of agricultural ingredients", Morrison explains.

The partnership has already helped Coca-Cola improve water efficiency by **20%** and reduce the soft drink giant's CO_2 emissions across its global manufacturing operations. Coca-Cola is however aiming to further improve water use efficiency and decrease emissions across its entire value chain by an additional **25%** in the years leading up to 2020.

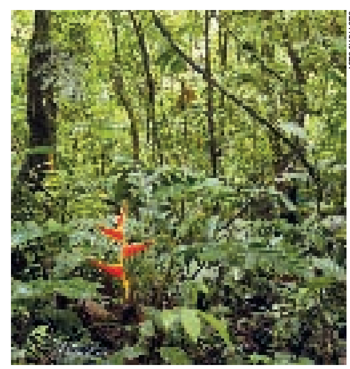
However, with **1,000 bottling plants** and more than **300 bottling partners** around the world, these targets are no easy task. Morrison explains: "Each goal contains several components that will require consideration and strategy. For example, reducing the carbon embedded in Coca-Cola's drinks by 25% must take into account the **manufacturing** processes, **packaging** formats, **delivery** fleet, **refrigeration** equipment and **ingredient sourcing**. That will require great coordination, buy-in and support across Coca-Cola's entire value chain.

WWF has helped Coca-Cola develop tools to help incentivise action across its global operation. Morrison says: "For example, together with Coca-Cola, we developed toolkits around **water efficiency** and **stewardship** that include more than 60 practices that can be executed at a plant, community and/or watershed level. We also implemented a programme called the Top 10 Energy Saving Practices across the entire Coca-Cola system."

Paper firm pulls out of FSC in face of inquiry

Indonesia-based paper manufacturer **Asia Pacific Resources International Limited**, also known as April, has unexpectedly withdrawn its membership from the **Forest Stewardship Council**.

A number of environmental NGOs, including **Greenpeace**, **WWF** and the **Rainforest Action Network**, believe the move is an attempt by the paper company to dodge an independent



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Under threat, again

deforestation inquiry surrounding its deforestation practices in Indonesia.

The withdrawal has come after the environmental NGOs had filed a complaint against April, flagging the violation of the FSC policy for association. The policy is meant to ensure that the FSC only associates with companies committed to fundamental principles of responsible forest management.

The alleged breach pertains to what is believed to be large-scale conversion of **natural forests into plantations**, particularly the destruction of high conservation value areas. ■

FAIRPHONE

Other section content:

Ethical startups: Fairphone

Fairness calling

By Stephen Gardner

Instead of complaining about phone-makers' sustainability failings, a group of Dutch campaigners is producing its own rival product

If you can't beat them, join them, or so they say. And a group of ethical trade campaigners has decided that the best way to understand and communicate about the supply-chain dilemmas facing consumer electronics brands is to enter the market. The idea has taken off quickly, with a crowd-funding campaign that started in May 2013 raising a €3m social business start-up fund from pre-orders in just three weeks.

Thus the Fairphone smartphone was born. It grew out of work done by a Dutch social innovation foundation, the Waag Society. The society's view was that most consumers have an "alienated relationship" with the products they buy, because they know very little about who makes them or how they are made. By producing its own phone, says Fairphone public engagement manager Roos van de Weerd, Fairphone will create a "storytelling artefact" that will be the basis of a high-impact awareness project on ethical supply chains.

About 13,000 Fairphones have been pre-sold, at €325 (£280) each. Fairphone's initial production run will be 20,000. The device will be a fully ethical mid-range smartphone. Its mineral content will be guaranteed conflict-free; it will be assembled by workers with fair contracts; and its price includes a levy for safe e-waste recycling. A buyback programme for retired Fairphones is also planned. The phone's operating system will be open source, and pricing will be transparent – Fairphone will publish a price breakdown.

Van de Weerd says the move into manufacturing will give much more credibility to Fairphone's campaign work on sustainable and ethical supply chains. "Our objective is not to be the number-one phone-selling company. The objective is still to tell the story and we tell the story through the phone and the impact," she says. The aim is to "try to be transparent in communication, try to really do something different in the industry, and that can only be done as a real player in the industry and not from the outside analysing what's going on."

Adventures in sourcing

The creation of Fairphone has taken the small Amsterdam-based team around the world. The quest for conflict-free minerals, including cobalt, coltan, tin and tungsten, has taken the company to the Democratic Republic of Congo, Indonesia, Rwanda and Zambia. In some cases, Fairphone has been able to work with other initiatives already active in specific fields. For example, tin for the Fairphone has been certified by the Conflict-Free Tin Initiative, which is overseen by the Dutch government.

For assembly, Fairphone went through a tortuous process to identify the right partner. In a blog posting on its website, Fairphone details the choices that this entailed. Initially, Fairphone sought to assemble the smartphone in Europe, but found that the right type of facility simply was not available, and that many components would be manufactured in China anyway, meaning a more diffuse, less-easily monitored, supply chain.

Fairphone therefore started the search in China for a partner that was transparent, that was prepared to involve its workers and that agreed to the use of conflict-free minerals. But the partner also

Establishing manufacturing capacity outside China would involve unrealistically large levels of complexity and investment

Fairphone facts

- A social business based in Amsterdam, producing a GSM/WCDMA unlocked smartphone.
- Initiated by Bas van Abel of the Waag Society, a Dutch institute for art, science and technology. Van Abel is Fairphone's chief executive.
- Eleven employees; plus a wider pool of up to 150 collaborators who provide, for example, graphic design, translation and sourcing services.
- Expecting to start fulfilling pre-orders in October 2013.

had to be prepared to think in terms of starting small and possibly growing big over the long term, rather than starting with a big order. “Our choice of production partner was really hard because a lot of [potential partners] don’t even consider making 20,000 phones for one party, because it’s nothing,” Van de Weerd says.

Fairphone ultimately concluded a deal with A’Hong, a Chinese manufacturer based in the cities of Chongqing and Shenzhen. A’Hong has also supported the Fairphone concept by, as the Fairphone blog notes, “making it possible for us to start the sales with only a small down payment”.

Along the way, Fairphone has realised that compromises are necessary. Establishing a manufacturing capacity outside China would have involved an unrealistically large level of complexity and investment. The decision was taken to work within the current system, and to try a different approach.

Van de Weerd says the experience has illustrated for Fairphone’s small team of 11 some of the problems that the giants such as Apple and Samsung face. For example, she says: “It’s hard to find conflict-free minerals. It’s something that is not really regular yet. Just changing countries for your sourcing isn’t the solution.” For this and other issues, she adds, “a lot of companies, electronics companies, are struggling. They want to do better, but it is so much work that they prefer to do it reactively.”

Apple, Samsung and others are enmeshed in an ethically imperfect system, and only serious competition or consumer pressure is likely to push them to make comprehensive changes, because of the difficulty of disentangling complex supply chains, Van de Weerd says. “For Samsung or Apple if they want to do this, they have to go back the whole way, and it’s so complex.”


FAIRPHONE

Conflict-free minerals from Congo

A model for the future?

Fairphone is optimistic that the consumer pressure will build, and that its example will demonstrate that there is demand for ethical electronics. Fairphone “has proven that there are a lot of critical consumers out there, and they will become more critical – that’s what I hope,” Van de Weerd says.

Initially, Fairphone will ship only to Europe. Preorders have come from all European countries. Most, however, have “come from Germany, Switzerland, Austria; they are really sustainability-minded”, Van de Weerd says. “We consider a lot of different focus areas while making the phone. We cover the open source part; we cover the conflict-free minerals part; we cover made with care [and] workers’ conditions. All these different issues will speak to different people with different interests or different values.”

Fairphone expects to make a small profit, though the margin will become clearer when the smartphone cost breakdown becomes available. “We’re delivering a mid-range phone. We wanted technology that has proven its stability,” Van de Weerd says. There is no premium to pay for the Fairphone because it is ethical, and it is not easy to compare its price to similar products because “we don’t know the cost breakdown of an iPhone or a Samsung. We have no idea. We don’t know how much their profit range is.”

Profits generated by Fairphone will go to the Fairphone Foundation for further research and awareness-raising. In principle, Van de Weerd says, if the Fairphone approach is successful, something similar could be done for other products, such as computers. But Fairphone is not looking that far ahead just yet. “It is so complex. Some people ask us if we are going to make a fair tablet and a fair laptop. It’s already so much work to try and do this. For us it’s important that people become more aware of what is happening, that we get the story out there.” ■

Fairphone is optimistic that there is demand for ethical electronics

ISTOCKPHOTO

The GlobalEthicist

Risky business

Andrea Bonime-Blanc considers why reputational risk is in a cross-cutting category of its own when an organisation is considering the hazards it might face

While every organisation (whether for profit, non-profit, governmental or academic) will face varied threats, it's important to understand how universal risks might apply to a particular business or entity.

It is safe to say that any global actor may have several or all of the following big bucket risk categories to deal with at any given time: political, operational, financial, legal, supply chain, technological, and leadership/culture.

And then there is something we loosely call "reputation risk". What is reputation risk? Is it a separate risk category to add to the list or is it another kind of threat altogether? I would argue that it is not an additional category but a different kind of cross-cutting risk – an altogether different animal that is nevertheless interconnected with the other seven categories.

Let's work our way through that statement. It is arguable that some of the seven categories have overlapping issues, and we could manage with fewer overall categories. Each of these major categories, however, is distinct and emanates from a different place. Let's define these contours and then revisit how reputation risk relates back to these categories.

Political risk. This category refers to risks emanating from the particular location, its government (whether local, provincial, state, national, federal or multinational), and the state of political and socio-political affairs in that location. Thus, political risk is greater or lesser depending on whether a country has a stable and peaceful political system where leadership turnover is predictable and non-violent and civil liberties are protected, whether there is an effective division of government branches, whether an independent judiciary exists, whether regulators exercise judgment without undue influence or conflicts, and whether there is due process.

Operational risk. This category refers to risk embedded in company operations – the overall administration and organisation of the entity, its workforce, labour and payroll management, supply chain and procurement programme, business continuity and crisis management, distribution, sales and other business development channels, joint ventures and partnerships, management of local operations, and whether it is highly decentralised or centralised.

Financial risk. This category refers to the overall financial management of the organisation as well as the internal plumbing details of an organisation's financial structure, reporting, debt and leverage, financial/contractual interrelationships, internal controls, taxation, sales and business development, financial incentives, currency exchange, hedging and derivatives, state of the national and international economy, and how transactions and other financial details are collected, reported and disclosed along the financial reporting chain.

Technology risk. This risk affects most organisations in similar ways and a few in much more dramatic ways. All organisations have experienced unrelenting waves of technology change and technology based threats (cyber-threats) over the past two decades. Companies and employees need to

Reputation risk can happen in conjunction with any other types of risk

COLUMNIST: ANDREA BONIME-BLANC

adapt quickly to new risks and opportunities. Some companies also need to be prepared for the "black swan" risk of a technological disruptor completely obliterating one or more of their services or products.

Legal risk. This big category of risks emanates from anything and everything that can be categorised as a government sanctioned law, regulation or compliance requirement in any jurisdiction anywhere. Thus it is vast and almost impossible to quantify except that all global actors have many of these issues to manage and worry about from a risk management standpoint. From corruption to fraud, from privacy to data security, from discrimination to harassment, from anti-trust to anti-money-laundering, these laws exist almost everywhere, in different shapes and forms, different regulatory and enforcement regimes and within different jurisdictions and venues.

Supply chain risk. While in the past no one would have picked supply chain risk as a separate big category of risk, it is important to do so today given the spotlight that many stakeholders are shining on this type of risk. It consists of multifaceted risks starting at the inception of a supply chain (quality and integrity of ingredients or proper vetting of third party providers), and encompassing every step along the way (quality, health, safety, environmental compliance of factories, facilities, products, locations, corruption, labour issues, fraud, acts of god), to the end product (integrity, quality, safety of product or service as advertised).

Disruption of a supply chain comes in many categories and proper risk, compliance and procurement planning for both supply chain integrity and back-up plans is essential.

Leadership/culture risk. This is a distinct category of risk for a very simple reason: leadership malfeasance (or culture/ethical failure) can have some of the most significant adverse impacts of any risk category. Think about the leadership and culture failures at Enron, WorldCom, Parmalat, Adelphi and Arthur Andersen to understand how a bad culture always trumps compliance and risk management. Indeed, good leadership and a culture of integrity while hard to measure and identify may be the best form of risk management out there.

So why, one might ask, doesn't reputation risk merit its own special category? The answer is that reputation risk can happen in conjunction with any one of the above risks if it continues unaddressed and unmitigated and persists or is repeated over time.

Here are a few examples of how each of the above specific risks can also become reputational risks (and thus have more serious, longer-term negative implications for an organisation):

- Doing business in a blacklisted nation (political).
- Ignoring local licensing and permitting requirements (operational).
- Mischaracterising earnings or expenses in financial statements (financial).
- Improperly protecting intellectual property and secure data on servers (technology).
- Permitting subversion of money-laundering controls for illicit purposes (legal).
- Condoning child or slave labour (supply chain).
- Allowing a culture of retribution and fear (leadership/culture).

When do any of the above risks become a broader and more endemic reputation risk? Reputational damage will happen when, in any of the above scenarios, additional factors are present.

First, negligent or intentional failure (or avoidance) by management, the chief executive and/or the board, to identify and acknowledge that such a major risk is serious, material or worthy of a mitigation action plan. And/or second, an inability, ineffectiveness or unwillingness of management or the board to tie the management of such serious risks back into the business plan and strategy of the organisation.

An example might include Wal-Mart's supply-chain risk which became unfortunate reality with the Rana Plaza building collapse in Bangladesh that killed more than 1,000 garment production workers. The factories in the building were in Wal-Mart's third party supply chain and had persistent and major fire safety and other building violations that were not caught or addressed effectively. Layer this disaster on top of a series of similar concerns and events happening in Wal-Mart's supply chain over a period of years before this event and the contours of an additional reputational hit begin to emerge.

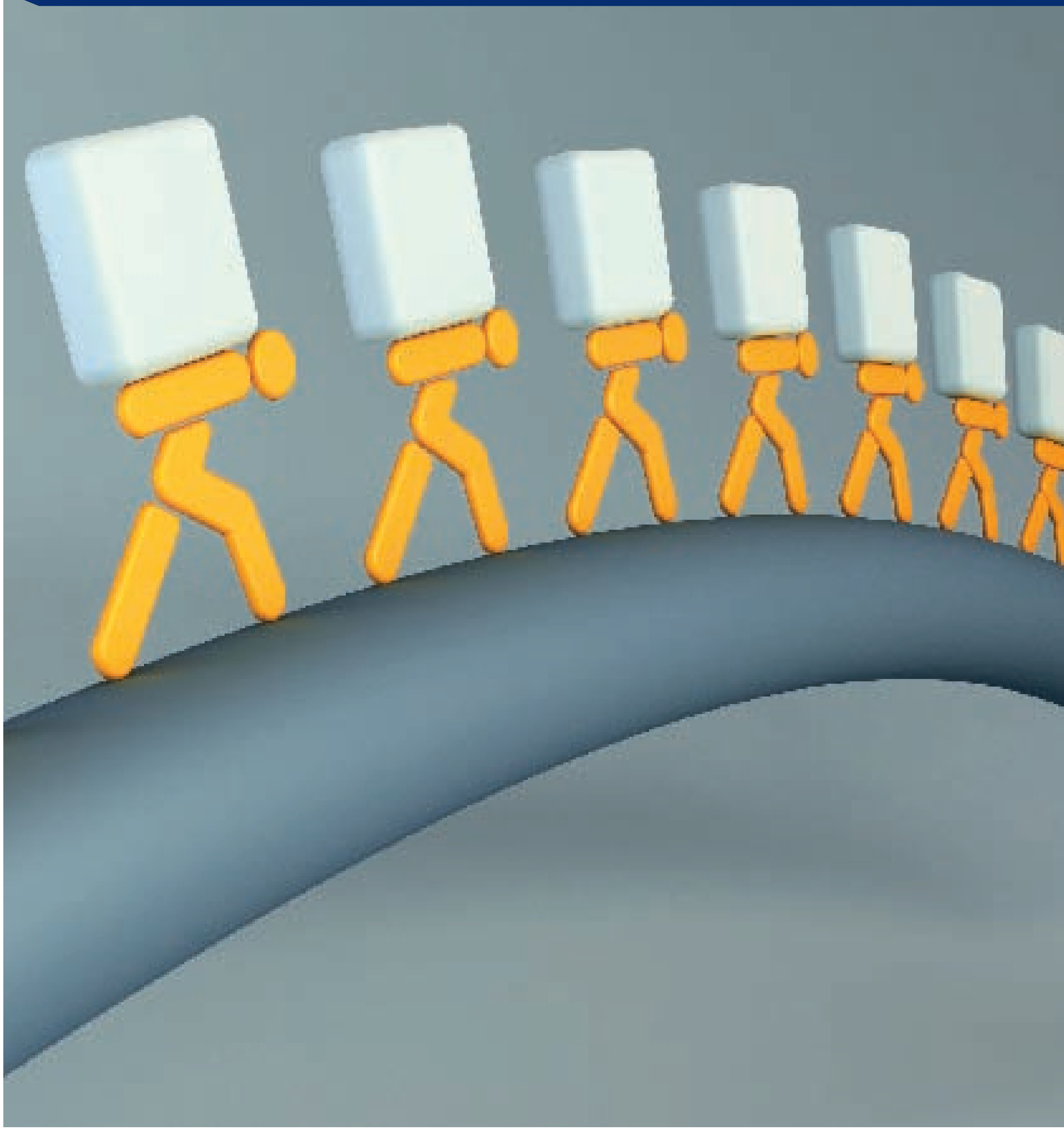
An effective enterprise risk management (ERM) programme using the big picture risk categories above and drilling down to where such risks live will help an organisation to identify salient risks (through, for example, assessment and surveys), weigh the likelihood/impact of risks and help prioritise them properly for effective decision-making and action planning.

But, no matter how developed an ERM programme is, reputation risk management will not be effective if it does not include two other key components: 1) executive management and board support and deployment of mitigation action plans and 2) tying the material risks back into the business plan and strategy of the organisation.

This is how reputation risk is layered on top of the other big bucket risks – it can have a multiplier and longer-term negative or positive impact on the organisation depending on the awareness and commitment of the board of directors and the C-suite. ■

Reputation risk management will not be effective if it does not include executive management and board support

Dr Andrea Bonime-Blanc is chief executive of GEC Risk Advisory, a global governance, risk and reputation consultancy to boards and the C-suite. She is chair emeritus of the Ethics and Compliance Officer Association, a member of Ethical Corporation's editorial advisory board, a programme director at The Conference Board and a life member of the Council on Foreign Relations. @GlobalEthicist



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Supply chains

How to commercialise a sustainable supply chain

By Claire Manuel

Ethical Corporation talks to some leading supply chains executives about risks and challenges, and why sustainability is central to long-term corporate continuity

Managing risk and ensuring integrity all the way down each tier of the chain is essential

The global economy relies in large part on a complex web of supply chain networks, which facilitate trade and keep businesses competitive.

But managing these global supply chains is becoming increasingly difficult, as their extended nature leaves them vulnerable to an ever-evolving array of problems: from IT failure to natural disasters, terrorist action, worker health and safety issues or political unrest.

Whether it's horsemeat in beef burgers, child labour in factories, unethical sourcing of materials to save money or warehouses being destroyed by hurricanes, managing risk and ensuring integrity all the way down each tier of the chain is essential if companies intend to remain competitive and keep reputations intact.

Creating and maintaining a sustainable supply chain means different things to different companies.

The McDonald's approach

The long-term vision of McDonald's is to ensure that all food and packaging comes from sustainable sources. "Our approach to sustainability is guided by the 'three Es' – economics, the environment and ethics," says Keith Kenny, senior director at McDonald's Europe. "Making sure farming and agriculture is economically viable, minimising the environmental impacts of our business and our supply chain and setting high ethical standards."

These principles are applied along the entire length of the firm's supply chain, from the way in which it sources agricultural raw materials through to manufacturing, logistics, its restaurant operations and waste management.

For consumer multinational Unilever, the two key areas are sustainable sourcing and reducing environmental impact. "We look at our entire operation through the lens of sustainability," says Pier Luigi Sigismondi, chief supply chain officer.

"This includes everything we source, from our 100,000 plus suppliers; everything we make, from our global network of more than 250 factories; and everything we deliver to the customer by our international logistics operation."

Sustainable living

Unilever's Sustainable Living Plan aims to reach 100% sustainable sourcing of all agricultural raw materials by 2020 (it currently stands at 36%) including 100% sustainably sourced palm oil – a target it achieved three years ahead of schedule. More than 50% of its factory sites are now zero non-hazardous waste to landfill and it is aiming for 100% by 2015.

However, Sigismondi believes the real impact comes when the company can use its influence and experience to create wider change. "With palm oil, we are building partnerships [with suppliers] to build capacity and promote the production and use of sustainable palm oil from physically-traceable certified sources," he explains. Unilever has also joined the Grow Africa project, an international partnership aiming to accelerate agricultural investment in Africa.

For Mike Coupe, group commercial director at UK supermarket giant Sainsbury's, a sustainable supply chain is not just about sourcing with integrity, it's about actively working with suppliers to educate them.

"We form partnerships with our suppliers, going beyond compliance, to help them consider the economic, environmental and social impacts of their activities," Coupe explains. "It's about co-creating solutions, and encouraging and incentivising innovation throughout the supply chain."

The Sainsbury's 20x20 Sustainability Plan sets out 20 ambitious commitments to be achieved by 2020, including to double the amount of UK-sourced food sold, to ensure key raw materials and commodities are sourced sustainably to an independent standard, and to work with its own-brand suppliers to reduce carbon emissions across all of its own-brand products by 50% relative.

"These are demanding goals and we're not entirely sure how they will be achieved," admits Coupe. "However, we know that it's what our customers expect and what our supply chain needs."

Climate change, water scarcity and rising energy costs (which in turn affect transport logistics) are just some of the risks facing today's supply chains, with the extreme weather patterns of recent years having a particular impact.

Supply chains: coping with the unknown

- Know the **point of origin** for all materials and take accountability for what happens beyond tier 1 suppliers – carry out the **due diligence**.
- Encourage **transparency** with suppliers – share your plans and expectations and learn from their **ideas** and **knowledge**.
- **Expect the worst** – do you have a **contingency** plan in place in the event of another Icelandic volcanic eruption (that closed international air space)? Could you charter a jet or use an alternative courier if deliveries were threatened?
- **Be hands on** – if your supply chain is global, do you have **in-country representatives** who can vet suppliers and navigate legal and regulatory frameworks to ensure compliance?
- **Create goodwill** – communicate with your suppliers, make your expectations clear, be flexible (and always have a **back-up** in case relations turn sour).

Sourcing risks

For McDonald's, future availability and affordability of key agricultural raw materials is a concern, especially as the vast majority of these are sourced in Europe. "Like many other businesses, we are facing challenges linked to climate change impacts, water scarcity and the cost of fuel and transport," says Kenny.

And with sustainability forming the backbone of a strong supply chain, building long-term relationships with suppliers is also essential, particularly from tier 2 and beyond.

"If our direct suppliers know that we plan to buy from them in the future that enables them to establish strong relationships further down the supply chain and invest in sustainability," says Kenny. "We are very proud of the fact that many of our key suppliers have been with us in Europe for over 30 years."

Telecoms giant Telefónica is involved in the Global e-Sustainability Initiative (GeSI), which is supported by the UN Environment Programme and the International Telecommunications Union.

"Participation in organisations such as GeSI addresses key issues for our sector, such as coltan," says Alberto Andreu Pinillos, Telefónica's global MD of public affairs. Coltan is a metallic ore crucial in the manufacture of electronic devices. "These actions have provided us a platform for dialogue and collaboration with our suppliers in order to ensure and accelerate the management of critical aspects [of the supply chain]."

An example of this collaboration is the Allies programme in Latin America. "It provides a framework that encourages sustainable management with third parties who have a direct relationship with the customer," Andreu Pinillos says. In 2012, almost 14,000 risk management audits were carried out, 6,500 employees received training and more than 4,700 supplier workshops took place. "Sustainable sourcing not only helps us manage a key business risk, it also presents an opportunity for growth," Sigismondi says. Unilever has invested

Climate change, water scarcity and rising energy costs are just some of the risks facing today's supply chains


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Global supply chains bring big challenges

Creative thinking and constant challenging of the status quo is required

heavily in improving farming practices among tea farmers, building capacity to more than 170,000 tonnes of Rainforest Alliance certified tea for brands such as Liptons.

"In Kenya, by partnering with the Sustainable Trade Initiative and the Kenya Tea Development Agency to co-fund farmer field schools, we have trained more than 450,000 smallholder farmers in sustainable agriculture techniques," he explains. This helps the smallholders to become more competitive and therefore improve the quality of their livelihoods.

Back in the UK, Sainsbury's has been busy building relationships with farmers and growers.

Its Dairy Development Group is six years old, and came about on the back of huge fluctuations in the market price of milk, which was resulting in large numbers of farmers leaving the dairy industry. "From the very beginning it was set up with the farmers at the heart of the group, in order to work on improving economic sustainability and the quality of what they produce," Coupe explains.

Farmers were initially paid a premium over and above the market price of milk for being part of the group. In return, Sainsbury's paid for and collected farm level data that provided an overall picture of the efficiency and effectiveness of the group on a number of metrics – and importantly provided each farm with data that was benchmarked against the rest of the group.

"The collection of this data has done more to improve dairy farmer productivity than any other initiative I have seen over the last 20 years," claims Coupe.

Future challenges

All agree that there are challenges ahead. "The complexity of the supply chain is increasing, not only by the number of companies that comprise it, but also by the relocation that globalisation brings," says Telefónica's Pinillos. "Therefore, its management has become one of the great challenges of sustainability for businesses."

What is very apparent is that creative thinking and constant challenging of the status quo is required if companies are to stay on top of ever-shifting supply chain issues.

"Our 20x20 Sustainability Plan commits us to hitting a billion pounds' worth of sales in fairly traded products," says Coupe. "We're clear it will only be achieved through new supply chains, with new ways of working, new investment, new partnerships and, perhaps above all, new attitudes." ■

Mike Coupe from Sainsbury's, Keith Kenny from McDonald's Europe, and Andreu Pinillos from Telefónica will be among the corporate leaders discussing ways to commercialise sustainability in supply chains at Ethical Corporation's 8th annual sustainable supply chain summit in London on October 7-8. For more information go to http://events.ethicalcorp.com/supplychain

INGRAM

Don't dash in the wrong direction!

China column

The law of unintended consequences, China style

As China takes steps to clean up its business culture, it is having to deal with knock-on effects, says Paul French

Spend enough time in China and you'll start to think you've seen everything – soupy air, traffic chaos, teeming crowds beyond belief. But, just when you think it can't get any crazier, it does.

For example, earlier this year 16,000 dead and diseased pig carcases floated down the Huangpu river headed for Shanghai. An internet storm immediately ensued – the foreign media was bemused, even the official Chinese media demanded answers and the local blogosphere erupted in shock, disgust and amusement.

A joke did the rounds. Beijing used to be the best city to live in China – open the window and get a free smoke! Now Shanghai is the number one city to reside in – turn on the tap and get free pork soup!

This was the law of unintended consequences in action in China. The government did a good thing, demanding that farmers properly dispose of and incinerate diseased hog carcases to stop the spread of blue-ear disease. A good idea, but expensive for the farmers.

Enterprising gangs offered to dispose of the carcasses less expensively and the farmers snapped up the offer. The gangs dumped the carcases in the river, causing a health alert, a massive clean-up operation, further serious dents to China's food safety and environmental image and not a little public outrage at Beijing.

This kind of thing is happening a lot in China these days. The government wants to boost domestic consumption to rebalance the economy and so, to encourage spending, it tells the banks to issue more credit cards so folk can swipe the plastic and shop. Retail sales continue to boom but there's a jump in personal debt. The law of unintended consequences again.

Similarly Beijing wants to crack down on corruption, and the poor perception of government officials feeding at the public trough, so they ban taxpayer-funded banquets for cadres. The public likes the crack-down but baijiu (white spirit) distributors go bankrupt and restaurants catering to large official banquets shed staff as reservations fall. More unintended consequences.

The GSK affair

And then there's the ongoing GSK scandal. One of the largest pharmaceutical companies in the world with massive exposure to the China market finds itself embroiled in a major corruption scandal, its consultants and employees under arrest and investigation. GSK's chief executive, Sir Andrew Witty, has been left floundering in the face of questions from journalists and investors, having seemingly no idea what's been going on.

That scandal, with GSK accused of bribing Chinese officials and doctors to boost prices of its medicines, comes at a time of greater demand by Beijing for regulation of industry and the crackdown on corruption. It's been well covered in the media, but where does the law of unintended consequences come in?

Here's where, and it requires some plain speaking. For more than two decades now Big Pharma has paid "commissions" to doctors and hospitals for prescribing drugs. Legal or not – and it's fair to say that up to now its been a highly "grey" area – one thing is for sure. It has been a regular and hitherto accepted part of the drugs business in China. The "commissions" may be cash, gifts or (as has become apparent) fully paid junkets for doctors and hospital administrators to, for example, Hawaii.

GSK is the first Big Pharma company to feel the squeeze

The system arose because Beijing wouldn't pay its doctors. They get a relatively small salary and feel hard done by. On top of their official salary doctors have topped up their earnings from "hongbao" (the so-called red envelopes that patients give doctors under the table for services rendered) and commissions from the drug firms.

The total is not a bad income, and without these extras many doctors would leave the state healthcare system for the nascent private one or seek other careers at home or abroad.

So now Beijing has cracked down on these payments and GSK is the first of what will probably be many Big Pharma companies to feel the squeeze. But the government has not raised doctors' salaries to compensate. The signs are that many feel aggrieved, disgruntled, out of pocket and ready to walk. The law of unintended consequences.

Diseased pig incineration, consumer credit, reining in profligacy in public spending, regulating the pharmaceutical industry – all positive moves as China becomes a more sophisticated economy. But Beijing had better be ready to deal with the consequences if it doesn't want mass public protest or the disappearance of many western companies and investors. ■

COLUMNIST: PAUL FRENCH

Based in Shanghai, Paul French is an independent China analyst and writer.

Volkswagen Group 2012 sustainability report

Hard to get to grips with Das Auto

By Kathee Rebernak

In its 2012 sustainability report, Volkswagen asks readers to "take a careful look behind the scenes", but doesn't make it easy

Volkswagen is an ambitious company. At first glance, its reporting would appear to be ambitious as well. Volkswagen has published its 2012 sustainability report in an HTML microsite, accompanied by a less comprehensive (albeit 170 pages long) PDF version, a smaller brochure that details its good works, an entire magazine devoted to diversity, and links to 165 supplemental documents.

The report is less than a fascinating read, however. Stilted and at times circular language, a dearth of definitions, and greyscale graphics make readers work hard to understand what Volkswagen really means when it says it wants to be the world's most profitable, fascinating, and sustainable carmaker on the planet.

In its report, Volkswagen includes extensive discussion of its materiality process and outcomes. Stakeholder engagement appears considered and comprehensive, and Volkswagen conducts a materiality analysis each year. With all the resources dedicated to engagement and determination of material issues, one could be forgiven for thinking that the materiality process and results inform the company's corporate strategy.

The report makes no mention of materiality as a driver of corporate strategy, however, and with the exception of "employment" and "economic stability", none of the issues Volkswagen defines as material made their way into the annual report's discussion of risk factors.

Greater clarity on the role that materiality analysis plays in corporate strategy – as opposed to "sustainability strategy" – would go a long way towards ensuring that stakeholder concerns are being addressed as business issues and that the materiality analysis delivers a return on the investment.

Firm v fuzzy

The Volkswagen report is packed with data that, on the environmental front in particular, tell a story of steady progress. Environmental metrics – energy, greenhouse gas emissions, water, and waste data – are presented in absolute and normalised terms, per vehicle produced. In addition, many, though not all, environmental goals are measurable and have an end date.

Social data and goals, on the other hand, lack the rigour that the environmental information enjoys. As an example, diversity, which ranks high on Volkswagen's list of material issues, is addressed at length in the report.

When it comes to goals and metrics, however, data is presented in percentages without absolute numbers, and goals are too loosely defined to be of much use to either company or stakeholder.

One goal is to increase the ranks of women in the firm as a whole "from 15.2%"; to what and by when it does not say. And the target to increase the ranks of women in management to 30% "in the long term", while laudable at first blush, lacks milestones or definitions – how does Volkswagen define "management"? This makes progress difficult, if not impossible, to measure.

Format let down

The online report has a "Background" landing page that features a single sentence: "Anyone seeking to accurately appraise a company's commitment does well not to just skim the surface. It takes a careful look behind the scenes to see how things are really connected." Unfortunately, the report's structure and format do little to aid the reader in taking that careful look.

The GRI index, so often used by companies as a live index and essential for readers looking for particular information, is hyperlinked neither in the online report nor the PDF. In addition, the GRI index points to numbered references in the online report that do not seem to exist, making navigation using the GRI index a difficult task.

What's more, the PDF has none of the navigational tools available in the online report, such as the numbered icons or the list of links. A hyperlinked PDF and GRI index alone would have gone a long way towards helping readers understand Volkswagen's performance.

Volkswagen's annual financial report has a pop-up glossary tool that defined terms on the spot. Such a tool would have been useful in the sustainability report, especially for those definitions of sustainability, corporate responsibility, corporate social responsibility, and citizenship. All of these terms can be found in the report, and each seems to mean something slightly different. It's not entirely clear what, exactly, we're all talking about. ■

Snapshot

Follows GRI? Yes, at an "A+" application level.
Assurance? Some data assured, as indicated by a "✓" in the indicator section.
Materiality analysis? Yes, process described and results depicted.
Goals? Yes, scattered throughout.
Targets? Some, but inconsistently contextual or time-bound.
Stakeholder input? Yes, both positive and negative.
Seeks feedback? No, but an "info" email address is provided.
Key strength: Contextualized environmental metrics.
Chief weakness: Lack of quantitative, time-bound social goals.
Pleasant surprise: Pop-up glossary in annual report (but, alas, not in sustainability report).
Level of integration: 1.5 (on a scale of 1–5).

Goals are too loosely defined to be of much use to either company or stakeholder

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Delta Air Lines 2012 corporate responsibility report

Seeing only blue skies

By Arthur Sprogis

Delta gives an upbeat account but soars past the most pressing issue facing the airline industry

If anyone's in doubt about the US's economic recovery, spend a few minutes with Delta Air Lines' 2012 corporate responsibility report. You'll get the impression that the world's largest economy isn't limping out of recession, it's powering out at full throttle.

A 92-page PDF, Delta's latest offering has everything you'd expect to see in a good CR report from a global airline: comprehensive sections on the environment, ethical business, community, customers (including the particularly topical issue of safety) and people. But Delta keeps going, dedicating considerable space to discuss the $3bn it is investing in "airport facilities and global products, services and technology" over the next several years.

Indeed, including business strategy information in the CR report is a step towards integrated reporting even though the opportunity was missed to link the investments to Delta's CR strategy.

Delta's chief executive, Richard Anderson, helped rebuild Delta after its 2005 bankruptcy through a shrewd merger with Northwest Airlines, a focus on profitable international routes, and aggressive cost cutting. It's little wonder that he focuses on Delta's financial success in his fairly impersonal welcome letter (a tone that's carried through the report).

On top of the infrastructure investments, Anderson proudly states that the company is in its third consecutive year in the black, delivering $372m in profits, shared with investors, and $91m in operations bonuses to employees.

Pride at the top

He has every right to be proud, but when he tries to relate that performance back to CR, claiming that "our financial success underwrites Delta's social responsibility", he falls short. Anderson cites charitable contributions and building a great workplace as examples of Delta's CR work and ignores the most pressing issue, climate change (the Intergovernmental Panel on Climate Change estimates that aviation is responsible for 3.5% of manmade climate change).

And that's a shame, because Delta's performance in this area needs explanation. The company says emissions from its fleet of nearly 1,300 aircraft account for 98% of its carbon footprint, and reports absolute greenhouse gas (GHG) emissions reductions (scope 1, 2 and 3) of 18% since 2005.

But it is not clear how the reduction has been achieved. Has the number of flights reduced or have big fuel efficiency gains been made? The report does not answer this question clearly.

Delta, together with other major airlines, "supports" the International Air Transport Association's industry goals, including a 1.5% annual fuel efficiency improvement by 2020 and a 50% reduction in CO_2 emissions by 2050, relative to 2005. However, Delta's own GHG emissions goal, introduced in the 2011 report, only provides short-term accountability. The goal is to reduce greenhouse gas emissions below the previous year's level. If continued, this would ensure zero growth in impact, but the company does not map a course to achieve the industry commitment.

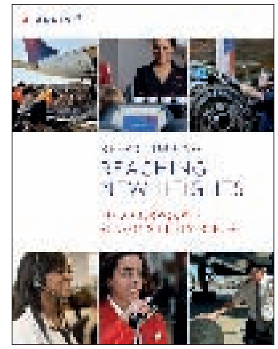
Delta says that almost two dozen fuel-saving initiatives are partly to thank for the reductions. The most effective of these include flight planning, the installation of winglets on aircraft to reduce drag, and operational improvements that have cut aircraft taxi times. Delta publishes exactly how much fuel and GHG emissions were saved last year by each initiative. In 2012, there was a reduction of 189,154 tonnes of emissions through GHG reduction initiatives. This is commendable, but it's a drop in the bucket compared to the almost 50m tonnes emitted in 2005; a drop in the bucket nowhere close to 18%.

Fuel understandably gets a lot of coverage in this report. In another show of financial strength, Delta explains how in 2012 it bought its own oil refinery to help secure its fuel supply, delivering cost savings of $300m a year. As yet there is no reporting of oil refining issues.

Delta says it is monitoring developments in biofuels and looking for partnership opportunities "with the ultimate goal of making a meaningful contribution to the industry's goal of commercialising aviation bio-jet fuel".

For all the attention that Delta gives its operational footprint, its supply chain is barely mentioned, although the four paragraphs that are included imply that more is on the way, particularly with regard to human rights. This is an area in which Delta has a good story to tell. It has a comprehensive effort to eliminate human trafficking, which requires employees to act if they are suspicious of violators. Delta says a supplier code of conduct is on its way "to enforce Delta's position on human rights".

With Delta in such a confident mood, it is a good opportunity for the airline to demonstrate stronger leadership in dealing with the industry's most material sustainability issue: climate change. ■



Snapshot

Follows GRI? Yes
Assured? Greenhouse gas emissions through the Climate Registry.
Materiality analysis? No
Goals? Subscribes to industry-wide environmental goals.
Targets? Yes
Stakeholder input? Yes
Seeks feedback? Yes, and even provides a personal email address.
Key strengths? Strong reporting of the approach and success of fuel efficiency initiatives; strong GHG reduction performance .
Chief weakness? Chief executive's letter does not address the most important responsibility issues and performance.
Pleasant surprise? A clear focus on eliminating human trafficking, a human rights issue closely related to its business.

Including business strategy information in the CR report is a step towards integrated reporting

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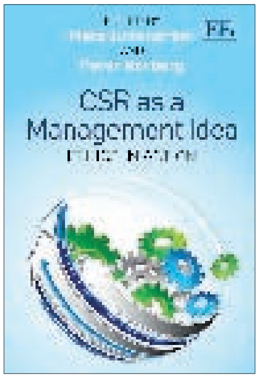
New books

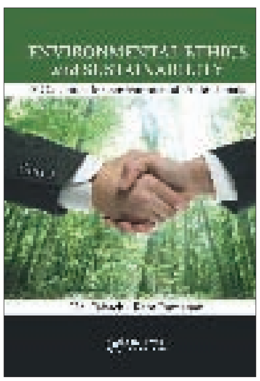
The regular review of new releases



CSR as a Management Idea: ethics in action

By Mats Jutterstrom and Peter Norberg (eds)
Hardback: 208 pages, £70
ISBN: 978-1782544715
Publisher: Edward Elgar
Published: July 2013

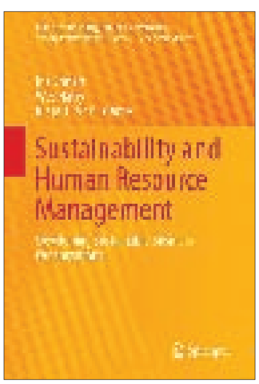
Written from the vantage point of organisation theory, this textbook assesses how corporate responsibility is implemented and used by management in daily operations. A valuable contribution to the academic literature.



Environmental Ethics and Sustainability: a casebook for environmental professionals

By Hal Taback and Ram Ramanan
Hardback: 268 pages, £63.99
ISBN: 978-1466584204
Publisher: CRC Press
Published: August 2013

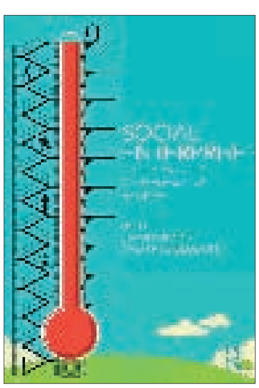
This practitioner-focused book introduces a novel decision-making model based around ideal outcomes rather than practical realities. An ambitious book, it combines human instincts and attitudes, alongside public policy and corporate culture. Strong case study content.



Sustainability and Human Resource Management: developing sustainable business organizations

By Ina Ehnert et al (eds)
Hardcover: 350 pages, £117
ISBN-13: 978-3642375231
Publisher: Springer
Published: June 2013

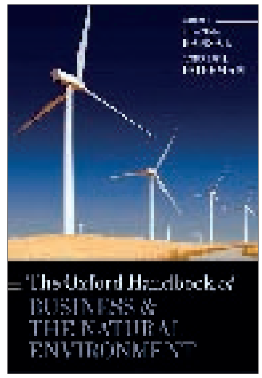
Human resources and sustainability are increasingly interacting around the recruitment and retention agenda. This book sets out how HR professional can influence sustainability performance by facilitating cooperation between top management and key stakeholders.



Social Enterprise: accountability and evaluation around the world

By Simon Denny and Frederick Seddon
Paperback: 264 pages, £30.99
ISBN-13: 978-0415626101
Publisher: Routledge
Published: July 2013

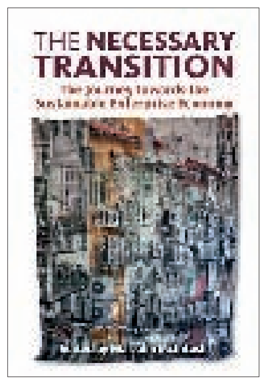
A helpful introductory guide to the emerging field of social enterprise, this book clarifies the concept while also suggesting methods of measurement and evaluation. A useful and important summary.



The Oxford Handbook of Business and the Natural Environment

By Pratima Bansal and Andrew Hoffman (eds)
Paperback: 720 pages, £30
ISBN-13: 978-0199677436
Publisher: OUP Oxford
Published: July 2013

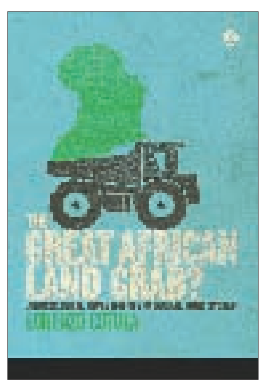
This weighty compendium covers all aspects of the environment as they pertain to business. From organisational theory and business strategy through to environmental accounting and operational approaches, little of relevance escapes this comprehensive handbook. A vital reference.



The Necessary Transition: the journey towards the sustainable enterprise economy

By Malcolm McIntosh (ed)
Paperback: 256 pages, £22.95
ISBN: 978-1906093891
Publisher: Greenleaf Publishing
Published: July 2013

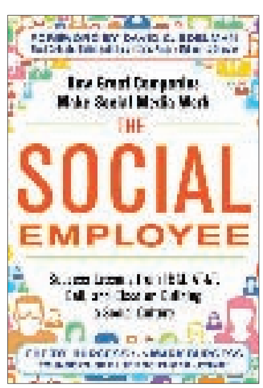
The term "journey" is something of a cliché in sustainability circles, yet in the case of this helpful volume of essays it's well used. Whether it's the shift from high- to low-carbon economies or from unaccountability to transparency, the world is undergoing major intellectual and practical transitions.



The Great African Land Grab? Agricultural investments and the global food system

By Lorenzo Cotula
Paperback: 256 pages, £12.99
ISBN-13: 978-1780324203
Publisher: Zed Books
Published: July 2013

Land use is fast becoming one of the big issues of this century. As the population expands and demand for natural resources increases, competition for space will inevitably increase. This hard-hitting book describes how this struggle is currently unfolding in Africa, a key battleground for future food security.



The Social Employee: how great companies make social media work

By Cheryl Burgess and Mark Burgess
Paperback: 224 pages, £14.99
ISBN-13: 978-0071816410
Publisher: McGraw-Hill Professional
Published: September 2013

Employee-led social media can be a key resource to create a strong social brand as well as a powerful corporate culture. This book seeks to show how to use such media to the full. With compelling case studies from big brands such as IBM, AT&T and Dell.

Business school bulletin

By Oliver Balch

Smarter urban planning, making ethics part of all curricula and corporate-government relations

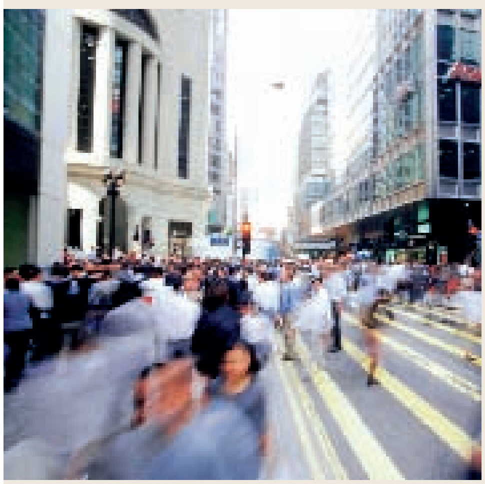
Sustainable cities

The world's cities are expanding. Today's urban population of 3.6 billion is expected to hit six billion by 2050. Providing basic services will be critical if city life is to remain liveable. Businesses need functioning cities if they are to operate efficiently and grow. No one wants urban basket cases but that's the way things are going in many parts of the world.

Governments lack the will, money and managerial skill to provide the smart sustainable solutions necessary. All eyes are turning to the private sector, which has the technology (or the innovative capacity to develop it) that's required.

This fascinating paper draws attention to some of the most exciting company-led responses currently unfolding around the world, with particular focus on the fields of electricity, water and transportation. The most convincing examples are the business opportunities around resource efficiency.

Take demand-response contracting. All urban electricity providers struggle with demand spikes when heat waves hit. Building additional generating capacity just to cover these infrequent events is prohibitively expensive. Instead, intermediaries such as Boston-based EnerNOC are cutting deals with high-energy users to reduce their consumption at critical moments. The participants receive regular "commitment payments" and the utility avoids the need for expensive investment, while consumers are spared power blackouts.



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A six billion person challenge by 2050

The paper also highlights the need for innovative "financial engineering". Urban infrastructure doesn't come cheap and is often risky (the cities that need such infrastructure most are often the most politically unstable and economically stretched). So municipal authorities are experimenting with innovative financing options, ranging from long-term senior bonds through to exchanging land for equity in the project promoter. Such approaches attract capital by offering different levels of risk and return as well as different cash flow priorities.

A final consideration for companies looking to offer services in the sustainable city space is which markets to choose. The biggest returns derive from the bigger, more chaotic cities where demand is highest and competition often lowest. To succeed in such "unsettled markets", however, companies need specific capabilities. These include coordination skills, political savvy and strong vendor and customer relationships.

Macomber, J (July-Aug 2013), "Building Sustainable Cities", Harvard Business Review, pp40-50.

Corporate responsibility: historical rejigging

Governments are dead. An overstatement, for sure, but it's a conclusion one could legitimately draw from the corporate responsibility literature. For most theorists, corporate responsibility fills the governance gap when the state is either absent, under-resourced or inept. This challenging paper reminds readers that contemporary concepts of the state as regulator, standard setter, protector and adjudicator were preceded by its function as enforcer stamping down on labour movements and financier investing in research, innovation and other building blocks of the "corporate economy".

This paper seeks to put these roles in context and interrogate the "implicit model" of corporate-government relations: the private sector pays taxes and lobbies on policy issues, while the state sets standards, protects property laws and provides public goods for business activities.

Particular attention is given to the US and its strong tradition of voluntarist corporate responsibility, with the author calling for a "more realistic" approach. Should government be subsidising certain kinds of research as a public good, for example? Or, if a company receives tax breaks, what should its social obligations be? Ultimately, corporate social responsibility implies a political relationship, the paper concludes. Greater clarity on the responsibilities of both business and government is required, therefore.

Marens, R (Summer 2013), "Calling in a Debt: government's role in creating the capacity for explicit corporate social responsibility", 118 (2): 143–169.

Integral ethics education

The frequency of corporate scandals suggests that the message of ethics courses in management education is not getting through. Northern Illinois University's college of business sought to set this straight with a teaching programme that integrates ethical issues throughout the curriculum.

Launched in 2006, the innovative approach educates students in four major ethical frameworks (utilitarianism, universalism, the theory of rights, and social precepts). It then encourages them to map these against their own values and challenges them, with the help of a practical application guide, to think through their responses to different ethical scenarios.

Where the aptly named Belief programme becomes very interesting for educators is in its attempts at impact measurement. It has two stated learning objectives: (1) increase students' awareness of ethical issues, and (2) strengthen their decision-making ability when such issues arise. On both counts the students' performance improved, with more than 99% recognising relevant ethical issues (up from around 83% before the course) and 92% making the correct decisions (up from 75% previously).

The authors identify three keys to success: integrating ethics teaching across all discipline areas, combining ethics education with active learning, and participation by professionals to create classroom materials (business participants provided data and funding for the programme). It's a teaching example other management educators could learn from.

Dzuranin, A, Toppe Shortridge, R, & Smith, P (Summer 2013), "Building Ethical Leaders: A Way to Integrate and Assess Ethics Education", Journal of Business Ethics, 115: 101–114.

Campus news

Boston College is offering a two-day course – Gaining Executive Buy-in For Corporate Citizenship – on September 17-18 2013. This will be followed by a week-long Corporate Citizenship Management Intensive beginning on 30 September.

Aarhus University in Holland is to host the second International CR Communications Conference on September 18-20 2013. ■

People on the move

By Claire Manuel moves@ethicalcorp.com
With thanks to Miriam Heale, Allen & York Recruitment


Dave Gorman

Dave Gorman has been appointed as the **University of Edinburgh's** first director of social responsibility and sustainability. He was previously head of environmental strategy at the Scottish Environmental Protection Agency.

Gorman started out as recycling officer in the cleansing department of Dundee City Council. "This was fascinating as we did lead the way for recycling in the UK, with lots of things being tried for the first time," he recalls. "Plus there was the added bonus of being exposed to a very practical and operational working environment."

After completing a degree in engineering, Gorman took two years out to do voluntary work, which he describes as an "eye opening and humbling experience". He then spent a few years at Falkirk Council working to embed environmental and sustainability issues, before embarking on a 13-year stint at SEPA.

"It's clear to me that the current patterns of wealth and activity across society are not sustainable, and are not fair," he says. "Everyone deserves a life led with respect, opportunity and freedom to choose their own path." Gorman plans to embed thinking and action on social responsibility and sustainability across everything the University of Edinburgh does. More specifically, he intends to "make sure we live up to our ethical and responsibility commitments, from investment to operations, from research to teaching, from the student experience to being a good employer."


Amanda Steele

International real-estate company **CBRE** has hired sustainability specialist **Amanda Steele** as the firm's new head of sustainability for Australia. Steele has 14 years' experience in sustainability, including her most recent role as national sustainability manager for property company Stockland.

She replaces Rebecca Pearce, who recently relocated to London to take on a new role as head of sustainability for the EMEA region. Steele's first job was with The Body Shop, where she worked while putting herself through university. "The corporate social responsibility ethos of that company had a big impact on the work I do today," she explains. "Barry and Graham of the Australian franchise back then ran the business with passion, ethics and creativity. It's what I still look for in any organisation I join."

After studying international politics, she worked in the not-for-profit sector, soon realising it was "very hard work with little resources or support". She then worked with federal and state government agencies on incorporating sustainability reporting, before moving to Insurance Australia Group.

"I worked in financial services for almost seven years before moving over to the property sector," she recalls. "I love how tangible sustainability is in property. Watching the impact of a good green build on tenants, employees and the bottom line. The sector is open to innovation and thrives on challenges. I love it."

United Nations Secretary-General Ban Ki-moon has announced the appointment of **Ibrahim Thiaw** of Mauritania as deputy executive director of the **United Nations Environment Programme.**


Mike Clark

Mike Clark is now the director of responsible investment at **Russell Investments**. Steering Russell's support of the United Nations Principles for Responsible Investment, Clark (who joined Russell in 1995) will continue to chair the Russell sustainability council.

The board of the UK's **Green Climate Fund** has appointed **Hela Cheikhrouhou** as the fund's first executive director. Cheikhrouhou was previously director of the energy, environment and climate change department at the African Development Bank. The Green Climate Fund was established to channel support to developing countries to help limit or reduce their greenhouse gas emissions, and to adapt to the unavoidable impacts of climate change.


Tim Melville-Ross

The **Institute of Business Ethics** has appointed **Tim Melville-Ross** as its president. He succeeds Sir Robert Worcester, founder of Ipsos-MORI, who has served as IBE president since 2001.

Alan Knight has been appointed as the chair of the **Cornwall and Isles of Scilly Environment Partnership**. He is currently sustainability director of Business in the Community.

Gavin Templeton is to join the **Green Investment Bank** as head of sustainable finance. He joins from private equity firm VTB Capital.

Sally Uren, former deputy chief executive of **Forum for the Future**, has become its chief executive. Uren, who has been with the environmental non-profit for 11 years, has led its work on food, sustainable business and sustainable brands. She is also chair of Forum for the Future's US advisory board and Kingfisher plc's advisory council, and acts as an independent adviser on advisory boards for several other global businesses.

Sustainable tourism expert and award-winning writer **Costas Christ** is to join Bangkok-based hotel and spa chain **Six Senses** as sustainability ambassador. A pioneer of eco-tourism, Christ is a founding member and former chairman of the International Ecotourism Society.


Costas Christ

As senior director for Conservation International, Christ supervised sustainable tourism projects around the world. In the 1990s, he was appointed to serve as US Peace Corps country director in Uganda and in 2012, he was recognised with Richard Branson, Ted Turner and Jane Goodall as one of 53 sustainability visionaries working to save the planet.

"We are at a new turning point as more travel businesses and destinations adopt sustainable tourism principles to help safeguard our planet and deliver tangible benefits to local communities," Christ says.


Amber Marie Beard

The hotel chain has also recently appointed **Amber Marie Beard** as vice-president of sustainability. Beard was formerly with Sustainability, an investment finance company managing real estate opportunities in China, Japan and Australia.

Appointment of the month

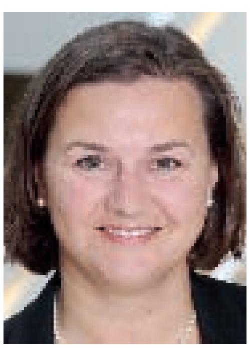
Alice Prudhoe is the new executive director of the **Global e-Sustainability Initiative (GeSI)**. After studying environmental law and social sciences at university, Prudhoe's first job was a sustainability policy and education role for local government in Sydney, Australia.


Alice Prudhoe

"Following that, I moved into sustainability project management for the telecommunications and electricity sectors in Australia and then focused on engaging Asian institutional investors on climate risks and opportunities," she explains. "After two years in Hong Kong I was looking for a new challenge based in Europe that focused on sustainability issues in networks and the GeSI role came up."

Prudhoe was motivated to work in this sector because of a desire to impart positive change. "I could see the need for a fundamental transformation to the way businesses value natural resources and human capital," she says. In her new role at GeSI, she is looking forward to undertaking new projects, showcasing ICT sustainability best practice, expanding the team and finding new and interesting ways to provide value to its members.

Pictet Asset Management has hired **Eric Borremans** as a full-time sustainability expert. He joins from BNP Paribas Investment Partners, where he was head of corporate responsibility and SRI development.


Dr Helena Barton

Dr Helena Barton, managing director of Cambridge-based CSR consultants Corporate Context, has joined **Deloitte Denmark** as a partner in the governance risk and compliance section. Her responsibilities will include expanding Deloitte's assurance services in sustainability.

Not-for-profit organisation the **Innovative Vector Control Consortium** has hired a new CEO, **Dr Nick Hamon.** Hamon's most recent role was head of sustainability at Bayer CropScience, North America.

Phil Crossland is **Leicestershire County Council's** new director of environment and transport. He was formerly executive director of infrastructure services at Shetland Islands Council.

The **German Convention Bureau** (GCB) has appointed **Christine Koch** as sustainability advisor. Koch, who has worked at the GCB since 2000, has been actively involved with its sustainability initiatives, including the seminar programme for sustainability advisors offered by the GCB in partnership with the German Federal Environmental Foundation.

Linda Coady is the new chief sustainability officer at Canadian energy company **Enbridge Inc.** Coady has 25 years of experience working with business, government, NGOs, local communities and indigenous peoples on social responsibility and sustainability issues. From 2005 to 2010, she was vice-president of sustainability for the Vancouver Organizing Committee for the 2010 Winter Olympic and Paralympic Games.


Lidia Berger

American professional services firm **Dewberry** has appointed **Lidia Berger** as national sustainability director. Berger has worked with a wide variety of clients, including the US Department of Defence, Johns Hopkins University and the US Department of Veterans Affairs. Prior to joining Dewberry, she served as vice-president and sustainable practice director at URS Corporation in Washington, DC.

French multinational **Kering**, whose subsidiaries include brands such as Gucci, Alexander McQueen and Puma, has created a **sustainability technical advisory group** (STAG), appointing several external sustainability experts as well as internal executives and board members. External members are Dr Holly Dublin, director of strategies, The B Team; John Elkington, co-founder and executive chairman, Volans; and Michael Wells, independent consultant. STAG's primary role is to provide informed technical insights into the group's sustainability initiatives and provide expertise on sustainability challenges and investments. ■

Corporate strategy

A little bit of politics

As relationships between the corporate world and government evolve, how should companies get involved in politics? Toby Webb has some suggestions

How can a large company become involved, ethically, in global politics? This is probably the most fundamental question facing really large companies in the next 20 years. At least, those large companies with a commitment to ethics and sustainability.

Here are a few ideas for companies that want to engage in this most difficult of questions.

1. First, **build a proper global policy and research team**. Fund them and keep them, let them educate themselves, and your management team, on the issues, materiality and, possibly, solutions.

2. **Develop ambitious** (and defensible) **positions** on issues. That might be water policy or labour standards enforcement. The positions are governed first by materiality, and second by global significance for your business and your stakeholders

3. **Push hard at the forums and associations** where your company is a member so that they are at the top of their game, or closer to it, rather than, like an infantry unit, marching at the pace of the slowest member. If those groups can't speed up, leave them, and/or create a leadership group.

4. **Advocate systems change on easy-win issues** first. Where is the low hanging fruit on which you and your fellow companies can make progress via your industry or issue body? How far can you go, and what can you expect to gain, and by when? Do you start regionally with like-minded companies? Maybe, as long as the ambition to go further exists.

5. **Do not donate to political parties** anywhere. Demand that your suppliers do not. You can't stop employees donating, but make it clear that's on their own time.

6. Take a public position that **corporate political donations are wrong**. But acknowledge that governments desperately need skilled help. Lobbying governments does not help build the capacity needed. Think harder. For example, BP funds the Oxford Centre for the Analysis of Resource Rich Economies. What can your company – or industry – do that helps contribute to long-lasting capacity building for better decisions?

7. **Be transparent about dealings**, financial or otherwise, with government. It may cost you a contract or two, but the long-term impacts are worth the trade-off. Not all conversations need to be on the record, though, and acknowledging when they are off the record can be tough.

8. **Take criticism on the chin**. Many people hate the idea of large companies having a position on anything. The argument that "there's no such thing as business ethics, only the ethics of individual business people" still holds much sway. Having a long-term position is something that's very new for companies, particularly given that long-term positions must be seen to withstand several changes of leadership.

9. **Hire lawyers** (there's two words I thought I'd never write) to make sure you are not falling foul of anti-cartel regulations when you negotiate with peers and competitors on pre-competitive issues (supply chain basic standards, climate change, corruption etc). If that competition law is the problem, what can your policy team – and other stakeholders and companies suggest is amended to drive progress?

10. Find existing and new **progressive organisations to support**, and challenge them to go further, faster.

DIGITAL VISION

Tread carefully

Lobbying governments does not help build the capacity needed

For example, the Institute for Human Rights and Business is becoming more vocal and practical (look at its work on Burma) and need long-term support.

11. **Make it clear to investors** that this is **part of core company strategy**, and educate them as to why careful, long term engagement in progressive, collaborative and multistakeholder driven systems change is vital to future success.

12. **Always think collaboration**. The term may have negative overtones in some cultures so rename it if you have to. Do remember that very few companies, if any, have changed much of anything on their own.

13. **Institutions and social capital matter**. These two areas are not well understood: how fundamental governance happens on a day-to-day basis, and how people feel about that, and their level of trust as a result. In emerging markets institutions are almost always weak. Most business-NGO partnerships do not yet aim to address the fundamental capacity, resource and design challenges of institutional development and longevity. This must change. Look at Bangladesh as an example.

There are only a handful of companies thinking part-time about these things. But many more companies will soon start to think about getting involved in politics than are today. The next question is when. ■

COLUMNIST: TOBY WEBB

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