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VALUES AND VALUE
Communicating the Strategic Importance of Corporate Citizenship to Investors

Findings of a 2003 CEO Survey of the World Economic Forum Global Corporate Citizenship Initiative in partnership with:

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Industries and corporate headquarter countries of the companies that contributed to the report:

Banking, clothing and footwear, conglomerates, construction, electronics, food and beverage, insurance, logistics and transportation, mining and metals, oil and gas, pharmaceuticals, professional services, travel and tourism, utilities

Belgium, Chile, Egypt, France, Germany, India, the Netherlands, Norway, Pakistan, the Philippines, South Africa, Switzerland, United Kingdom, USA

This report is based on CEO, CFO and investment relations officers' responses to a written survey and set of personal interviews, conducted primarily with executives in signatory companies of the World Economic Forum's Global Corporate Citizenship Initiative. Although this initiative represents a small and self-selected group of companies, they offer perspectives from 14 different industry sectors with headquarters in 14 different countries. Some of the key messages are reinforced by the findings of research conducted by SAM Sustainable Asset Management in 2003, covering over 1,000 companies, and the findings of several global, European and American surveys of institutional investors – each covering over 400 investors – which are listed in the footnotes.

VALUES AND VALUE:
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PREFACE

The World Economic Forum is pleased to issue this third report of our Global Corporate Citizenship Initiative, a programme that concentrates on the leadership role of chief executive officers and boards of directors, and the key drivers of their engagement in corporate citizenship at the international level. This report grew out of a discussion among CEO members of the initiative at our Annual Meeting 2003 in which they reviewed the findings of last year's report, *Responding to the Leadership Challenge: Findings of a CEO Survey on Global Corporate Citizenship*. That study profiled practical examples of leadership in implementing elements of the initiative's 'Framework for Action', which offers a template endorsed by over 40 CEOs for leading a company through a deliberate thought process on how to manage its impact on society and relationship with stakeholders.

In last year's survey, CEOs identified a sometimes sceptical investment community as having a particularly crucial influence on thinking about corporate citizenship among business leaders and board members. In the discussion at last year's Annual Meeting, a number expressed the view that the initiative could make a useful contribution by examining how member company CEOs and CFOs explain their emphasis on corporate citizenship to shareholders and institutional investors and by drawing lessons from the range of these experiences and practices.

Thus, *Values and Value* explores how CEOs, CFOs, and investor relations officers communicate the strategic importance of the social and environmental aspects of their firm's performance to investors. It examines how these companies are articulating both the business case and the leadership or values case for global corporate citizenship, highlighting some of the challenges of communicating often intangible, non-financial but nevertheless quite relevant issues to owners. Based on this analysis and the experiences recounted directly by many of our CEOs and CFOs, the report takes note of a number of effective practices and offers a set of recommendations for those seeking to communicate the importance of corporate citizenship to shareholders and investors.

We would like to thank our partner in this project, The Prince of Wales International Business Leaders Forum and, in particular, Jane Nelson for applying her customary dedication and prolific understanding of the field of corporate citizenship to this endeavour. Our appreciation also goes to Caroline Bergrem, the Forum's Project Manager of the Global Corporate Citizenship Initiative. Finally, we extend our gratitude to the CEOs of member companies of the initiative and their teams. Their leadership is critically important to advancing the spirit and practice of global corporate citizenship.

Klaus Schwab
Executive Chairman
World Economic Forum

Richard Samans
Managing Director
Global Institute for Partnership and Governance
World Economic Forum

GENEVA, JANUARY 2004

Corporate Citizenship and Investors

"Never before in the 33 years of the World Economic Forum's history has the situation in the world been so fragile, as complex and as dangerous as this year. We feel that we are living in a new world – with new rules and new dangers – but certainly also with new opportunities. …Today we need a new, enlarged concept of business leadership!"
Klaus Schwab,
Executive Chairman,
World Economic Forum,
Davos, 2003[1]

Business leaders in almost every industry sector and country face a complex and challenging set of economic pressures, political uncertainties and growing, often contradictory, stakeholder expectations. Despite an improvement in economic conditions, severe constraints remain on costs and prices, the employment impact of jobless growth is a concern in some major economies, a pensions crisis looms on the horizon, and increased trade tensions are challenging global growth prospects. Geopolitical uncertainty shows few signs of abating and non-traditional business risks, from international terrorism to climate change and HIV/AIDS, continue to grow in both quantity and complexity. At the same time, failures in corporate governance and ethics still dominate the headlines, and trust in business and its leaders remains low. Expectations also continue to grow in terms of the public role of private enterprise – from helping governments to deliver the Millennium Development Goals to playing a leadership role in zones of conflict and being more accountable for environmental, labour and human rights issues along global supply chains. And underpinning all this, CEOs and their executive teams face unrelenting pressure to respond to new types of competition and to deliver sound and credible financial performance in the short term.

As a result, many business leaders face unprecedented, and often unusual, demands on their time and leadership skills. They are under pressure to demonstrate outstanding performance not only in terms of competitiveness and market growth, but also in their corporate governance and their corporate citizenship. They are being called on to engage with activists as well as analysts, to be accountable for their non-financial as well as their financial performance, to manage social and environmental risks as well as market risks, and to cooperate as well as to compete – often with non-traditional partners focused on unfamiliar issues. In response to these challenges, the concept of corporate citizenship or corporate social responsibility is moving beyond the boundaries of legal compliance and 'nice-to-do' philanthropy, to a more central and challenging position alongside issues of corporate purpose, governance, strategy, risk management and reputation.

In the pages that follow we look at the role of institutional investors in driving this trend and some of the recent changes in the financial sector that are starting to move corporate citizenship onto the mainstream investment agenda. These changes include:

- Increase in 'active ownership' and research by mainstream investors
- Growing influence of socially responsible investment
- New legal and listing requirements
- New international norms and conventions
- Ongoing ethical and governance crises in the capital raising chain
- More sophisticated activist campaigns
- Voluntary financial and reporting frameworks.

1. WHAT ROLE DO INSTITUTIONAL INVESTORS PLAY?

"A confluence of corporate governance and socially responsible investing has stimulated activity. As well as developing analytical skills, firms are also collaborating in specific areas, notably climate change. Research has shown that incorporating social responsibility can reduce portfolio volatility and increase returns. The evidence is not conclusive, but rejects the view that any kind of screening will damage the risk/return performance by narrowing the available investment universe."
Roger Cowe
Risk, Returns and Responsibility
Association of British Insurers, 2004[2]

Institutional investors – beyond the active but small socially responsible investment (SRI) community – have rarely been seen as one of the drivers toward more responsible business practices. If anything, the opposite has often been the case, both in reality and perception. The massive pressure on corporate executives during the past decade to make the numbers and to deliver on ever-rising short-term forecasts has frequently been cited as one of the drivers of recent corporate governance and ethics crises. It has also been a factor in major cost-cutting exercises, which have resulted in employees being laid off, suppliers being squeezed and local community partners being dropped. In some cases, pressure from the financial markets has been accompanied by corporate efforts to cut corners on social and environmental legislation and norms.

"Our investors don't care" has become a common refrain both from leading companies who have been frustrated by the lack of investor support for their efforts to improve social and environmental performance, and from the corporate laggards, happy to have a ready-made excuse for their lack of investment and vision in this area.

A survey of CEOs carried out in 2002 by the World Economic Forum's Global Corporate Citizenship Initiative (GCCI) asked business leaders to identify the stakeholder groups who create the greatest pressures or incentives for their corporate citizenship activities. Investors were ranked only seventh, after employees, government bodies, customers, local communities, NGOs and boards of directors.

As outlined in the next section of this report, many CEOs, CFOs and investor relations officers comment on the low level of shareholder interest in their corporate citizenship or corporate social responsibility activities. Some claim that their investors have not asked them a single direct question relating to their social and environmental performance over the past few years, and probably not surprisingly, sell-side analysts are cited as being particularly uninterested.

Yet, there are signs that the tectonic plates are starting to shift. Changing societal expectations, evolving regulatory frameworks, and the emergence of new business risks and opportunities associated with a company's ethical, social and environmental performance, are resulting in a growing convergence between good corporate citizenship and investor interests.

2. SIGNS OF CHANGE IN THE FINANCIAL SECTOR

"Environmental and related social issues in transactions are becoming an integral part of our risk analysis."
David Bushnell, Managing Director, Head of Risk Management, Citigroup Global Corporate and Investment Bank[3]

Although by no means an exhaustive list in what is a complex, multidimensional and fast-moving field, a few of the drivers for change in the financial sector are outlined below.

(i) Increase in 'active ownership' and research by mainstream investors

In a limited, but interesting number of cases, during 2003 some of the world's major institutional investors started to flex their muscles on issues related not only to improved corporate governance and ethics, but also broader issues of corporate citizenship.

A group of US State and City Treasurers and Trustees, with fiduciary responsibility for some of America's largest and most influential pension funds, not only made public calls for governance changes at the New York Stock Exchange, but also joined environmental groups and socially responsible investment (SRI) fund managers to call for greater investor focus on the risks and opportunities posed by climate change. Speaking at an Investors Summit in New York in November 2003, California State Treasurer Phil Angelides commented, "In global warming, we are facing an enormous risk to the US economy and

"Climate change – a change in the average weather conditions – may have both positive and negative effects in individual cases, but it can never be without consequences."
Bruno Porro, Chief Risk Officer, SwissRe
Opportunities and Risks of Climate Change, 2002[4]

to retirement funds that Wall Street has so far chosen to ignore. The corporate scandals over the last couple of years have made it clear that investors need to pay more attention to corporate practices that affect long-term value. As fiduciaries, we must take it upon ourselves to identify the emerging environmental challenges facing the companies in which we are shareholders, to demand more information, and to spur needed actions to respond to those challenges."[6]

In February 2003, the Association of British Insurers, whose 400 plus members transact some 95% of the insurance business in the United Kingdom and account for over 20% of investments in the London Stock Exchange, issued updated disclosure guidelines on socially responsible investment, first issued in 2001. In doing so, ABI stated "public interest in corporate social responsibility has grown to the point where it seems helpful for institutional shareholders to set out basic disclosure principles, which will guide them in seeking to engage with companies in which they invest."[7]

The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), which represents the interests of some 13 million unionized working men and women in the United States with over US$ 6 trillion invested in health, pension and savings funds, intensified its 'Capital Stewardship' campaign. This campaign is aimed at using workers' shareholder muscle to encourage more long-term, sustainable value creation.[8]

"We believe it is also crucial to take on board how pro-active the companies are to bring the right innovation to adapt their product portfolios and to adopt a sustainable socially responsible approach to the obesity issue."
Obesity: A Lingering Concern, Morgan Stanley Equity Research Consumer Staples: Global Insights, October 2003[5]

Also during 2003, the research departments of major financial institutions such as SwissRe, JP Morgan, Morgan Stanley, Citigroup, UBS Warburg and HSBC produced reports analysing the material business risks and opportunities created by issues such as climate change, eco-efficiency, obesity and the Millennium Development Goals.

While such actions remain limited among major institutional investors and some observers query the wisdom of major pension funds and their trustees expanding the concept of fiduciary responsibility beyond the maximization of short-term results, these are developments worth watching.

(ii) Growing influence of socially responsible investment

At the same time, the SRI movement, whilst still representing a tiny percentage of global funds under management, continues to grow in terms of size, sophistication, geographic scope and influence.

According to the Social Investment Forum (SIF)[9], between 2001 and 2003, socially screened funds in the United States grew by about 6.5%, while the broader universe of professionally managed portfolios fell 4%. During the same period, shareholder advocacy activity increased by 15%, and 2003 is on track to be a record year for filings of social and environmental as well as corporate governance resolutions. The SIF also reports that there is a wide and growing array of SRI products available in more than 21 countries.

The credible performance of many SRI funds and indices, such as the Dow Jones Sustainability Index and FTSE4Good, challenges the critique that this is an asset class for people with values, who don't care too much about value. Although negative screening remains an option for many ethical investors, most SRI fund managers have moved beyond this limited approach to also offer investment strategies such as positive screening, best-in-class stock selection and industries of the future, with a strong emphasis on both the financial and non-financial performance of companies.

SRI fund managers have also become more active in engaging with executive management teams, not only through proxy voting at annual general meetings but also through regular dialogue and meetings. Many are increasingly involved in debates on public policy, with the aim of shaping an enabling environment that is more conducive to

aligning financial sector interests with a shift towards more sustainable patterns of economic growth.

One important development over the past year has been the emergence of collective initiatives by major SRI Investors. These initiatives have served to leverage the influence of the SRI community on both corporate behaviour and public policy. A few examples are outlined in Box 1.

BOX 1: COLLECTIVE ACTION BY INVESTORS

1 International Corporate Governance Network (ICGN)

Initially founded by pension funds in 1995, the ICGN now has more than 300 members – mainly fund managers – representing assets in excess of US$ 10 trillion. It aims to "link shareholders to company management" by producing principles for companies and investors to adhere to. One of its current activities is helping to reformulate the OECD corporate governance principles, which will be published in 2004. [10]

2 The Carbon Disclosure Project

On 31 May 2002 a group of 35 investors representing assets of US$ 4.5 trillion wrote to the chairmen of the FTSE500 companies requesting "investment-relevant information relating to greenhouse gas mitigation." Nearly half of the companies (245) provided information. The initiative was so successful that the exercise was repeated in November 2003; this time 89 institutional investors, representing assets of US$ 9 trillion, supported the request for information. [11]

3 Pharmaproject.org

In March 2003, 12 institutional investors produced a framework for pharmaceutical companies to use as a guide for disclosure in annual/social reports in the context of "the public health crisis in emerging markets", with a focus on issues relating to access to patented medicines. The investors involved in the initiative believe that "the sector's response to the crisis could impact on shareholder value in the long term and therefore want to enhance their understanding of how companies are addressing this issue."[12]

4 Just Pensions

The objective of the Just Pensions initiative is to "contribute to the Millennium Development Goals, by improving the social and environmental impact of foreign trade and investment in developing countries." Affiliated to the UK Social Investment Forum, which has over 250 members, Just Pensions produces industry sector research notes focused on the corporate citizenship challenges facing 12 FTSE industry sectors and has developed a self-assessment tool for pension fund trustees to determine whether social, environmental and ethical decisions have been sufficiently covered in their investment decisions.[13]

5 Investor's Statement on Transparency in the Extractives Sector

In May 2003, a group of institutional investors representing £1.75 trillion (US$ 3 trillion), issued a statement in support of the Extractive Industries Transparency Initiative (EITI). Launched in September 2002 by United Kingdom Prime Minister Tony Blair, with the support of leading mining and energy companies, as well as NGOs, the EITI aims to increase transparency of payments made by extractive sector companies to governments and government-linked entities. The statement commends the EITI and the efforts made by companies and governments already engaged in the initiative, and calls on the engagement of new companies, as well as inviting other investors to join the statement.[14]

(iii) New legal and listing requirements

Over the past few years, the passage of the Sarbanes-Oxley Act and the recent SEC Mandate on Proxy Voting Guidelines in the United States have also intensified investor interest in corporate citizenship and corporate governance. These developments have been matched and, in some cases, surpassed in other major capital markets. Reviews of company law and the implementation of new disclosure and listing requirements in countries such as the United Kingdom, France, Sweden, Germany, Belgium and Australia, for example, have also involved an increased focus on the non-financial performance of companies.

At the same time, although environmental, labour, human rights, and health and safety legislation has had mixed results, both the threat and the actual implementation of new regulation remain important drivers of the corporate citizenship agenda. Such regulation creates both risks and opportunities for business. These risks and opportunities obviously vary widely by industry sector and country, but in a growing number of cases investors cannot afford to ignore them.

(iv) New international norms and conventions

Increased corporate citizenship and the role of business in development were also central features in several international commissions and conventions during 2003. Although these have a less direct impact on corporate behaviour than national laws and regulations, they nonetheless contribute to growing awareness by business leaders and investors of the strategic importance of responsible business practices. Examples of such international actions during 2003 have included the signing of the ***United Nations Convention against Corruption*** and adoption of the ***Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights****,* by the UN Sub-Commission on Promotion and Protection of Human Rights (a 26 member expert advisory body to the UN Human Rights Commission). The Norms, which are essentially a roadmap for companies for addressing human rights, go before the full UN Human Rights Commission for consideration in March 2004. Other UN initiatives that have included a strong focus on the global role and responsibilities of business include the ILO's World Commission on the Social Dimensions of Globalization, UNDP's UN Commission on the Private Sector and Development and the UN Financing for Development Initiative.

(v) Ongoing ethical and governance crises in the capital raising chain

The pressure on business leaders to play a more proactive role in restoring public trust in private enterprise has also been kept high during 2003 by ongoing ethical crises and media headlines. The spotlight has been particularly intense on the financial and professional services sectors, driven by a combination of the legal proceedings underway in cases such as Enron and Tyco and the emergence of new conflicts of interest and ethical problems along the capital raising chain. These have ranged from problems in the US Mutual Fund industry and the NYSE's governance structure, to ongoing public concern about conflicts of interest between auditing and consulting services, risk rating and risk management services, and research and investment banking services.

(vi) More sophisticated activist campaigns

While lawyers and lawmakers have been shining the 'corporate citizenship' spotlight on business and its investors from one direction, from another direction, social and environmental campaigners continue a relentless and increasingly sophisticated pursuit of 'big business' and the companies that finance it. Non-governmental organizations such as Friends of the Earth, the World Resources Institute, Human Rights Watch, Amnesty International, Global Witness and Oxfam are starting to target the financial sector in some of their campaigns, seeing it as a key leverage point to influence corporate behaviour on issues ranging from climate change and human rights to access to essential medicines and fair trade. They are bringing in people with financial expertise and undertaking increasingly rigorous and analytical research on the business risks and opportunities associated with a company's ethical, social and environmental performance.

(vii) Voluntary financial and reporting frameworks

Not all of the impetus for greater corporate citizenship and responsible investment is coming from external stakeholders or being imposed from the outside on the business and financial community. In recent years there has also been increased collective action by CEOs on a variety of corporate citizenship issues and in a number of countries and industry sectors. The past two years have been particularly notable for new voluntary initiatives in the financial sector.

Financial sector initiatives have included the launch in 2003 of the ***Equator Principles***, an agreement by 14 of the world's major project finance banks working in partnership with the International Finance Corporation (IFC). These principles are aimed at strengthening social and environmental criteria in project finance and the signatory banks have agreed to adhere to the IFC's rules and guidelines on sustainable development for projects over a certain size.[15]

In September 2002, the Corporation of London supported the launch of the ***London Principles of Sustainable Finance***.[16] Developed by the Forum for the Future in consultation with over 50 financial institutions, these seven principles propose conditions under which financial market mechanisms can best promote the financing of sustainable development. They are a framework to encourage innovation rather than a binding agreement requiring compliance. They focus on the following critical services that financial institutions offer to companies and can use as a mechanism for influencing corporate behaviour:

- Pricing assets and exercising ownership
- Providing new finance
- Risk management.

Another example of collective action is ***UNEP's Finance Initiatives***, which bring together major banks and insurance companies.[17] First established in the early 1990s, these initiatives have grown in size and influence and have become increasingly focused on mainstreaming responsible investment and banking practices during the past few years. Of particular relevance to investors has been the establishment of an Asset Management Working Group by 12 leading firms. Its aim is to develop the ability of mainstream fund managers to identify and respond to social and environmental issues relevant to their profession. During 2003 the group worked on the following four projects:

- Understanding the materiality of key environmental and social criteria
- The fiduciary responsibility of institutional investors
- Engagement with pension funds
- The meaning of socially responsible investment in emerging markets.

"We take the view that, where appropriate, well-designed and targeted regulation can play a helpful role. When I was the pensions minister in 1999, I introduced the requirement that pension funds should state whether or not they had a policy on socially responsible investment and if so what it was. That has been an effective, light touch intervention, which has stimulated a great deal of work around the social and environmental consequences of investment."
Stephen Timms,
UK Minister for Corporate Social Responsibility

Another important voluntary development has been the establishment of the ***Global Reporting Initiative (GRI)*** as an independent body, supported by a multistakeholder governance structure.[18] The GRI was first initiated in 1997, as a joint initiative of the United Nations Environment Programme (UNEP) and the Coalition for Environmentally Responsible Economies (CERES), a group of more than 80 investor, environmental and community organizations. In 2002, the GRI became independent, and is today an official collaborating centre of UNEP offering a framework for companies to help them report on their triple-bottom line performance – economic, social and environmental. Work is currently under way to develop sector-specific indicators to ensure more relevant information for different industry sectors. The financial sector is one of the first being assessed.

During 2003, the ***UN's Global Compact*** grew to a participation of some 1,000 CEOs and their companies, over half of them from developing and transition economies.[19] One of the Global Compact's new projects will focus on the role of the financial sector and how it can integrate the Compact's Nine Principles for business performance on human rights, labour and the environment into investment research and stock exchange listing criteria.

The growing interest among investors in corporate citizenship and sustainability issues is illustrated in the findings of two major surveys of institutional investors during 2003, which are summarized in Box 2.

Despite the trends and initiatives outlined above and the survey results summarized in Box 2, many in the investor community – pension fund trustees, fund managers, buy and sell-side analysts, researchers and financial consultants – appear to remain focused on short-term results and limited financial performance indicators. How are CEOs and other executives communicating the importance of their corporate citizenship activities to these institutional investors and do investors care? What are the challenges and what are some of the best practices and recommendations for others? We explore these

questions in the following pages, drawing on the findings of interviews and a survey of companies participating in the World Economic Forum's Global Corporate Citizenship Initiative, in addition to other research listed in the back of the report.

BOX 2: CHANGING INVESTOR ATTITUDES TO CORPORATE CITIZENSHIP

Investing in Responsible Business: The 2003 Survey of European Fund Managers, Financial Analysts and Investor Relations Officers[20]

One of the GCCI member companies, Deloitte, collaborated with CSREurope and EuroNext during 2003 in a survey of 388 mainstream fund managers and financial analysts (including both sell-side and buy-side analysts) across nine European countries (Belgium, France, Germany, Italy, the Netherlands, Spain, Sweden, Switzerland and the United Kingdom). Interviews were also conducted with the investment relations officers (IROs) of 80 major companies representing a total market value and turnover of more than 1,000 billion Euros. Their findings constitute the first comprehensive European picture of how social and environmental performance informs decisions and attitudes among mainstream fund managers/analysts and among IROs in major companies. A few highlights of the survey are outlined below:

- The financial community sees a clear link between non-financial risks and shareholder value. Investor relations officers are nearly unanimous, with 89% agreeing on this issue, while fund managers and analysts are marginally more cautious (76%). However, 15% of those interviewed did not see any link between the two.
- For 79% of fund managers and analysts, the management of social and environmental risks has a positive impact on a company's market value in the long term, but no impact in the short term.
- The view is echoed by IROs who believe that good social and environmental performance in the long term strongly influences a company's brand and reputation (69%), economic performance (46%) and market value (36%).
- 52% of fund managers/analysts and 47% of IROs believe that social and environmental considerations will become a significant aspect of mainstream investment decisions over the next two years.
- 96% of IROs think that dialogue with shareholders on these issues is increasing. 95% of them strongly feel that companies will voluntarily integrate better social and environmental practices into the way they do business and 85% are convinced that the next three years will see more legal requirements imposed on companies for social and environmental reporting.

Formula for Confidence: Resetting Investment Criteria After the Boom and Bust 2003 International Survey of Institutional Investors[21]

In their seventh annual survey of institutional investors, Russell Reynolds Associates interviewed nearly 400 institutional investors in the US, United Kingdom, France, Germany, Japan and China, with the aim of finding out how they are making their investment decisions, what they consider to be the most desirable CEO traits and characteristics for the board of directors, and how much influence they think they have on the companies in which they invest. The survey found an interesting array of similarities and differences between these six major economies and capital markets. Among their findings:

- Consistent with the rebellion against the 'returns at all costs' mentality, investors in all countries say they believe CEOs should practice social responsibility (59%) rather than operate as though returns are all that matter (35%). Investors in France and Germany feel strongly that CEOs should be socially responsible (89% and 79%, respectively), while those in the United States have split opinions – 53% think it is important for a CEO to be socially responsible, and 47% think it is healthy for the CEO to focus on returns only.
- Two thirds of investors say a company's corporate governance practices are a very important consideration when making decisions about investment opportunities. Looking at the United States, the importance of corporate governance as a decision factor has jumped to 71% in 2003 from 53% in 2000. The quality of a company's board of directors has nearly doubled in importance to 45% in 2003 from 25% in 1997.

II The Investor Communication Challenge

Lack of interest, incentives and relevant research and skills on the part of investors, and lack of clear definitions, performance indicators, metrics and benchmarks on the part of companies, were commonly cited as the major obstacles to mainstreaming corporate citizenship issues into the decision-making processes of the investment community. Short-term investment horizons and regional differences between the United States and Europe, and between OECD and developing economies, were also seen as obstacles. We summarize some of these below.

1. IS ANYONE LISTENING?

Many companies cite lack of investor interest in their corporate citizenship activities as an impediment to investing in and taking a more strategic approach to these issues. To explore this challenge, the companies surveyed by the World Economic Forum were asked four core questions relating to investor interest:

1. Are you seeing an increase in the level of activism, engagement and sophistication from the socially responsible investment (SRI) community in your company's activities and performance?
2. In the past few years, have any financial analysts or major institutional investors (other than the SRI community) asked you directly about your company's risks and opportunities related to corporate citizenship issues?
3. How do you think investor interest in corporate citizenship issues will develop in the future?
4. What key obstacles do you see for the mainstreaming of corporate citizenship in the decision-making processes of the wider investment community?

(i) The SRI Community

All companies responding to question 1 agreed that there has been an increase in the level of activism, engagement and sophistication from the SRI community, 42% felt there has been a major increase, while 58% only occasionally get requests from the SRI community.

There were differing viewpoints on the influence and contribution of the SRI community in terms of mainstreaming corporate citizenship issues into the wider investment community. Many of the companies see SRI fund managers as increasingly influential, both in terms of their influence on policy makers and their impact on corporate behaviour through active engagement with companies and their promotion of an investment style that takes non-financial performance into account. Some respondents, however, were more sceptical. As one CEO commented, "SRI is a counter trend pushed by NGOs, and that has created a niche. It will probably remain a niche." Another commented on what he viewed as, "…the confused message given out by the SRI community. Many SRI investors invest with an ethical motive, and are prepared to accept average returns or below if their ethical standards are upheld. Others believe that a portfolio of companies with strong corporate citizenship policies and implementation should provide better than market average returns in the longer term. As long as these two opposing theories sit side by side in the SRI community, its credibility will suffer and mainstreaming will not progress."

(ii) Mainstream Investors

In terms of interest from mainstream investors, just over two-thirds of the companies in our survey claimed that they are occasionally asked questions about their corporate citizenship activities, but usually only when there has been a crisis related to their industry or company, or around certain 'hot' topics such as climate change, diversity, obesity and HIV/AIDS. The head of investor relations at one company reflected the comments of many others, "These issues never come up unless there is a problem – no one cares unless there's a financial risk or short-term exposure." The CFO from Rio Tinto commented, "With a few honourable exceptions, most mainstream investors ask little or nothing about social responsibility. That might change in the event of a serious environmental/community/political incident, which raised questions about the company's performance."

"In 2003, sell-side analysts differentiate themselves from both fund managers and buy-side analysts. Overall, sell-side analysts are more sceptical about the impact of non-financial risks on shareholder value, the growth of SRI and the potential for social and environmental criteria to become a significant aspect of mainstream investment decision-making. They are also less likely to use information on companies' social and environmental performance than fund managers and buy-side analysts."
Investing in responsible business, Deloitte, CSR Europe and Euronext, 2003[22]

15% of the respondents said they have not been asked questions on their corporate citizenship issues at all – sometimes even when they specifically included these issues in their presentations to investors. The executives of only three companies – Anglo American, Infosys and Deutsche Bank– stated that they are often asked questions by mainstream investors.

(iii) Sell-side and buy-side analysts

Several of the CEOs and investor relations officers spoke of the need to distinguish between different types of players in the investment community. As one CEO commented, "The sell-side analysts have very little interest in the CSR side of things. They offer a perspective of how you operate within your sector from a risk management and broader governance view and they will follow short-term public issues that could come at the industry, but their interest doesn't go any further. On the buy-side, interest has grown. …Passive or tracker funds don't delve into the fabric of the business, but in the case of active funds some of these do take an interest – usually looking at it from a compliance perspective or whether an active CSR policy may lead to sustainable value creation."

(iv) Drivers of mainstream investor interest

Several of the business executives surveyed referred to recent corporate governance and ethics crises, the emergence of CSR or sustainability indices and the broader economic climate as key factors either driving or undermining increased investor awareness of corporate citizenship issues. Ewald Kist, ING's CEO, felt that there had been "some growth in mainstream investor interest, even in more challenging economic conditions, which could lead to the conclusion that in better circumstances it would be even more." Marilyn Carlson Nelson of Carlson Companies concurred, "…the interest in CSR does not appear to be slowing due to economic downturn. It is a continuing trend which is now part of business future planning."

Inge Hansen, the CEO of Statoil felt that, "On the one hand, the Enron collapse and calls for increased transparency and responsible behaviour towards customers and employees in its aftermath, has put the spotlight on corporate citizenship issues. Thus it can be suggested that more mainstream investors consider at least some corporate citizenship issues as relevant in their assessment of companies. One of these corporate citizenship issues is corporate governance – the interaction between an organization, its board, its management and its stakeholders. On the other hand, we have been through a period of falling equities markets. In such a challenging situation, investors seem to focus even more closely on (short-term) financial return, and there is less focus on corporate citizenship issues by mainstream investors."

Dr. Heinrich v. Pierer, CEO of Siemens, also emphasized the importance of corporate governance in raising mainstream investor interest, "Trust is getting more and more important and corporate governance has become a major issue. The mainstream investor community has therefore a growing interest in so-called 'soft' indicators of good

management." And from the perspective of Shafik Gabr, CEO of Artoc Group, "Key members of the investment community are beginning to realize that socially and environmentally responsible investments are significant issues that affect the value of their investment, earnings per share, profitability and the likelihood of winning contracts."

(v) Future trends

"These issues are raised more often and in an increasingly knowledgeable and professional manner at investor meetings."
Anthony Trahar,
CEO, Anglo American Plc

Over 70% of the companies surveyed by the World Economic Forum expected to see increased interest in corporate citizenship issues by mainstream investors in the future – far more than those who felt it is likely to remain a niche issue for the SRI community. This correlates with the findings of the two surveys summarized in Box 2.

In summary, investor interest in corporate citizenship issues is growing, not only in terms of the SRI community, but increasingly among mainstream fund managers and financial analysts – but, unless there is a social, environmental, ethical or corporate governance crisis, these issues are only flickering dimly and sporadically on most institutional investors' radar screens. Uwe Dörken, the CEO of DHL sums it up, "There is growing general interest as witnessed by the increase in sustainability analysts that the major investment houses are now employing. However, corporate citizenship issues are still of secondary importance to mainstream investors."

So what are the obstacles to mainstream investors showing more interest in how corporations address the risks and opportunities related to corporate citizenship? The CEOs, CFOs and IROs surveyed by the World Economic Forum identified five interrelated types of obstacle:

- Problems of definition
- Problems of making and measuring the business case
- Problems with quality and quantity of information
- Problems of skills and competence
- Problems of time horizon.

2. DEFINING CORPORATE CITIZENSHIP

There is no single, commonly agreed definition to describe a company's overall role in society, let alone commonly agreed indicators and metrics to measure and report on this role. This makes it difficult to communicate a clear, succinct and comparable message to analysts and fund managers. As the CFO of Rio Tinto pointed out, "I often find the debate on this subject very diffuse and insufficiently focused on the business case. Until this is rectified real investor interest will be limited." Another respondent commented on the "vague and fuzzy language" used in this area.

When asked what term their companies use to describe these issues the response from the people surveyed was predictably wide-ranging, strongly reinforcing the above point. Corporate social responsibility (CSR) was the most commonly used term among our small sample, but only by a tiny margin. Almost as many companies used each of the following terms: sustainability; corporate citizenship; and corporate responsibility. One used an enlarged concept of corporate governance to define their overall corporate responsibility framework, another used the term community responsibility, and a couple of strongly values-driven companies used terms such as 'commitment' and 'commerce and social justice'.

Even the same term can mean different things to different companies. CSR, for example, still largely means compliance and philanthropy for some companies, whereas in other companies it has become a much more strategic framework, looking at a company's overall impacts and relationships. Social or environmental challenges may also be very

different across industry sectors in terms of their nature, their impact and the potential risk or opportunity that they create for companies and investors in that sector.

While it is pointless to get too caught up in semantics, the lack of a common definition does create a challenge in terms of comparability and benchmarking between companies – even within the same industry sector. This challenge can be partly overcome, however, by developing agreed key performance indicators for different industry sectors – as the Global Reporting Initiative and various industry groups are attempting to do.

3. MAKING AND MEASURING THE BUSINESS CASE

Probably the most frequently cited obstacle to corporate citizenship becoming a more mainstream issue for investors and the companies that they invest in, is the lack of a rigorous, credible business case backed up by performance indicators and metrics which can be empirically quantified and benchmarked.

(i) Making the business case

Most leading companies and most major institutional investors recognize that corporate citizenship has become a more strategic business issue over the past decade. For many companies and industry sectors, issues once assigned to the philanthropy department, and some that were not even on the radar screen, are becoming material business risks and opportunities, with implications for corporate strategy and even core business models. A look at the agendas for the Governors (industry CEO) Meetings at the World Economic Forum's Annual Meeting 2004 illustrates a growing number of corporate citizenship issues that have become mainstream business concerns in almost every industry sector. Some specific examples of this trend, drawn from the companies surveyed for this report, are summarised in Box 3.

BOX 3: EMERGING ISSUES OF STRATEGIC IMPORTANCE TO BUSINESS

Climate change has become a more strategic issue not only for the auto and energy sectors, but for other industries as well, as evidence grows of its potential impacts on different sectors from finance to agribusiness.

Managing social and environmental risks down the supply chain has become another strategic issue for many companies – whether it is sustainable agriculture and fair trade in agribusiness companies; labour conditions in contractors' factories in developing countries that produce apparel, footwear and other manufactured goods for western consumers; or access to HIV/AIDS treatments for employees, sub-contractors and their families.

Product distribution and use also raises new risks and opportunities to be assessed and managed. These include efforts in the auto, tourism, transport and logistics sectors to improve road safety and to cut carbon emissions. They include the growing awareness of the risks of obesity in the food and beverage sector and the business opportunities of offering more healthy lifestyle options, including increasingly mainstream efforts in the alcohol industry to promote responsible drinking.

Increasing access and affordability of essential products and services is also on the mainstream business agenda for certain sectors. Access to essential medicines, for example, has become a strategic issue that goes to the heart of the business model and intellectual property rights for many pharmaceutical companies, whether it is addressing medical benefits for the elderly and non-insured in OECD economies, or providing access to treatments against HIV/AIDS, TB and malaria in developing economies. This calls not only for product donation programmes, but also new pricing models and new types of public-private partnership to improve healthcare delivery in the public sector. Improving access to water and electricity has also become both a business risk and an opportunity for utilities companies. Likewise with efforts to bridge the digital divide in the information and technology sector.

Tackling bribery and corruption, and increasing the transparency of revenue flows between governments and companies, have become issues for most industries, but most particularly the mining, energy, infrastructure and financial sectors. Linked to this has been growing awareness of the need to tackle human rights issues, especially in zones of conflict and in conditions where governance is repressive and bad, or simply weak and inefficient. Initiatives such as the Publish What You Pay Campaign, supported by financier George Soros, the UK Government's Extractive Industries Transparency Initiative and the US-UK Voluntary Principles on Security and Human Rights, have all raised awareness of the strategic business importance of these issues and have been actively supported by leading companies.

There is increased awareness that failure to meet changing stakeholder expectations and to manage the risks that are being created by corporate citizenship issues such as those outlined in Box 3 can have a negative impact on reputation and brand equity, ability to attract and retain the best employees, and a company's legal and social 'licence to operate'.

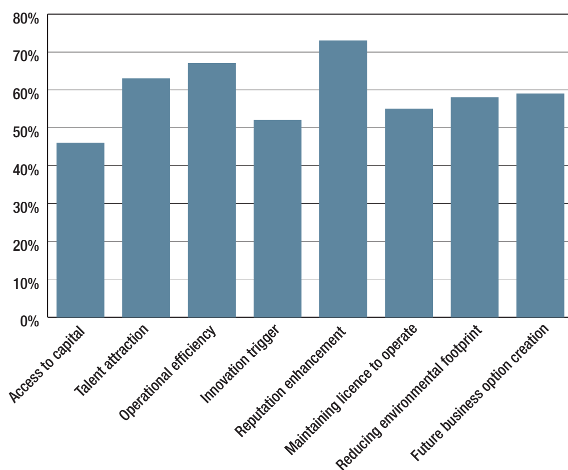
Alternatively, innovative and creative responses, or even better, the ability to predict future social and environmental trends, can improve a company's operational efficiency and cost structure, offer new business opportunities, create new markets and enhance competitiveness.

In almost every survey carried out on the 'business case' for corporate citizenship, these factors – reputation, talent attraction, operational efficiency, licence to operate and future business opportunities – top the list. The rankings obviously vary across industry sectors and regions. Reputation, for example, is more strategically important to companies with valuable brands to build and protect and in countries with a more vocal activist community, whereas licence to operate is very important to industries that are heavily regulated or where public-private partnerships and the delivery of public goods and services are a key component of their business model. Yet the core drivers are similar.

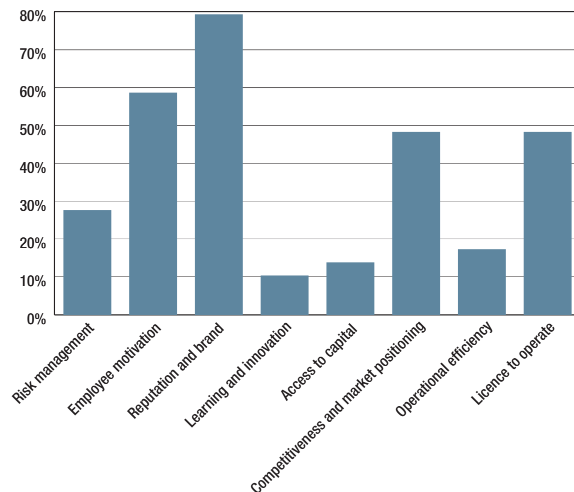
The two graphs in Box 4 capture the results of SAM Sustainable Asset Management's 2003 analysis of over 1,000 companies and the World Economic Forum's 2002 survey of the GCCI participants – both asking companies to rank the 'business case' for corporate citizenship and sustainability.

BOX 4: CORPORATE VIEWS ON THE BUSINESS CASE

Please tick the five most important options where you perceive the most value is added from your sustainability strategy in terms of value generation/competitiveness enhancement (SAM 2003)



Please list among the eight following factors the three that you consider the most important in making the business case for your corporate citizenship activities (WEF CEO Survey 2003)



(ii) Measuring the business case

As the above examples and survey results indicate, understanding of the business case for corporate citizenship has advanced markedly in the past decade, and there is growing agreement on what the key drivers are and how these vary across industry sectors and regions. Despite this progress, most companies and investors still find it challenging to measure and quantify the actual impact of corporate citizenship efforts on company value and performance. There are still relatively few common metrics, performance indicators and benchmarks within industry sectors, let alone across business in general.

"It will take more empirical evidence tying in improved shareholder returns with companies that engage in CSR/corporate citizenship. I believe that the reasoning and the logic already appeal to many on an intuitive level but the institutional investors and analysts are governed to a large extent by financial models. For this to become mainstream, there has to be enough evidence so that it can actually become one of the parameters in their financial modelling."
Jaime Augusto Zobel de Ayala II, President and CEO, Ayala Corporation

Almost every respondent to the Forum survey cited one or more of the following as obstacles: problems of measurement; inappropriate procedures to measure the economic benefits of corporate citizenship issues; difficulty of putting a financial value on intangible assets such as reputation and motivation of the workforce; lack of sound analytical tools; the difficulty of quantifying the impact of corporate citizenship issues on a company's share price; too many non-quantifiable items causing problems for the common financial analyst.

The CEO of Statoil comments: "Many mainstream investors are still not convinced by the business case and see corporate citizenship issues as a cost rather than an investment that can produce a return. One important reason is that mass markets seem unwilling to pay the required premium for corporate citizenship quality."

Part of the challenge, as Anthony Trahar, CEO of Anglo American, argues is that: "The whole CSR/sustainable development agenda is still at a relatively formative stage and reporting metrics are uneven and KPIs inconsistent." As the agenda continues to evolve – and all trends and indications are that it will – the challenge of developing effective performance indicators and reporting metrics will increasingly need to be addressed.

Individual companies have already made substantial progress on this – some of the leaders in developing economic, social and environmental metrics to assess and account for their non-financial performance include Shell, BP, BT, Unilever, DuPont, Nike and Diageo.

Collective efforts, such as the work of the Global Reporting Initiative and projects being undertaken by the Conference Board, Boston College and AccountAbility, among others, are also helping companies to identify, measure and report on their performance on corporate citizenship related issues. Another collective initiative aimed at improving information and metrics on a key corporate citizenship issue is the World Economic Forum's recently launched Global Greenhouse Gas Register, which is profiled in Box 5.

Indexes, such as the Dow Jones Sustainability Index and FTSE4good, also provide a useful benchmark of the relative performance of companies around economic, social and environmental issues. Yet, most key financial indexes and financial sector rankings do not incorporate corporate citizenship issues. As the CEO of Statoil comments, "Official investor rankings that are very important for investors do not focus on corporate citizenship issues. An inclusion in, for example, Euromoney's Top 10 or Institutional Investor's Top 10, means a lot for investors' future inflow of capital – as long as the rankings focus mostly on return on capital, corporate citizenship issues are not a main focus in the mainstream investment community."

BOX 5: THE GLOBAL GREENHOUSE GAS REGISTER: A METRIC FOR ASSESSING CORPORATE CLIMATE RISK MANAGEMENT

Investors are beginning to take the risks of climate change very seriously. An increasing number want to know how companies are managing climate change risks and positioning themselves in the face of emerging climate change regimes. They believe that how a company responds may significantly influence its performance through the potential effect on brand reputation and market perception, risk ratings, cost of capital, and future cash flows and earnings.

But while many firms are being asked by their shareholders, governments, and communities to take voluntary steps to manage their impact on the climate, until now there has been no platform for the public disclosure of such information on a comparable, globally consolidated basis. The absence of such a standardized framework has not only impeded analysis of the relatively few companies that have conducted inventories of their emissions but also discouraged the broader international corporate community from taking this first step in good risk management.

In response, the World Economic Forum in partnership with eight leading business and environmental organizations has created the Global Greenhouse Gas Register – a transparent, internationally consistent framework for the disclosure of worldwide corporate emissions inventories and voluntary reduction targets. The Global GHG Register sets the benchmark for corporate climate disclosure to the investment community insofar as it requires emissions to be reported on a standardized and consolidated basis that permits comparative analysis. It is based on the GHG Protocol, a volumetric emissions accounting standard developed by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI).

The Forum's partners are: BrasilConnects; Deloitte Touche Tohmatsu; International Emissions Trading Association; Pew Center on Global Climate Change; WBCSD; World Energy Council; WRI; and World Wildlife Fund.

4. ENSURING SUFFICIENT QUANTITY AND QUALITY OF INFORMATION

Linked to the above points, most companies have a long way to go in integrating sustainability and corporate citizenship issues and metrics into their investor relations materials. SAM Sustainable Asset Management asked companies to provide material used to communicate with analysts and investors about sustainability issues. Only 26% of the companies analysed stated that they offered comprehensive coverage of these issues, while 71% claimed to provide little or no coverage. Not surprisingly, there was major variation between industry sectors. The only sectors where over 30% of respondents claimed to offer comprehensive coverage of sustainability issues to their investors were: basic resource industries; cyclical goods; construction; energy; healthcare; the media, telecommunications; and utilities.

While many companies argue that their investors rarely or never ask for information on the company's social and environmental performance, there appears to be a mismatch in what investors are expecting. According to the 2003 survey of European fund managers, analysts and IROs carried out by CSR Europe, Deloitte and Euronext, while 56% of fund managers and analysts felt that companies' communication practices have improved over the past two years, the majority still think that the quality and quantity of corporate reporting and communication remains unsatisfactory.

According to the European survey, written information from the companies themselves continues to be the main direct source of information on which investment decisions are made. There was an emerging consensus among fund managers and analysts (69%) and IROs (70%) that third-party assurance could be instrumental in improving the credibility and reliability of this corporate information. Specialist external information and direct dialogue with companies were ranked second and third as a source of information for investors.

These findings are supported by the global survey of institutional investors undertaken by Russell Reynolds Associates, although this focused primarily on corporate information relating to financial rather than social and environmental performance. The survey found that, "Investors no longer take integrity for granted and are placing a premium on credible

corporate information. Integrity of the information provided by a company emerges as the number one decision criterion when evaluating investment opportunities. While investors say they feel there is generally enough information available about the companies in which they invest, they do not necessarily trust this information." Although 64% of fund managers ranked formal documents published and released by companies as being credible, they were more sceptical (43%) about the credibility of conversations with the CEO and other top management.

5. DEVELOPING RELEVANT SKILLS AND COMPETENCE

Closely linked to the challenges of definition and measurement, is the need for the development or hiring of people with enhanced skills in both the financial and corporate citizenship fields. Both need to have a better understanding of each other's working environments, languages, incentive systems, methodologies, etc. As one CEO argues, "There is a lack of training of many SRI analysts in basic financial and accounting issues and a relative lack of understanding of some of these corporate citizenship risk areas on the part of many mainstream analysts. However, for many sectors it is inevitable that the two perspectives will converge." Another comments that, "Investor sophistication in assessing how well companies manage the value of intangible assets is very low. Investors do place value on good corporate governance because of a general belief that it protects shareholder interests. But investment analysts do not systematically assess competence in protecting the value of intangible assets." A third respondent cites "lack of professional and high quality CSR/SRI research for investors" as a key obstacle.

Business schools, professional institutes, and company training programmes can all play a role in tackling this challenge of developing people who have a good grasp of both financial and non-financial issues, tangible and intangible assets, and analytical and anecdotal methodologies for gathering and assessing information on a company's current performance and future prospects.

6. SHORT-TERM VERSUS LONG-TERM TIME HORIZONS

Another major obstacle mentioned by a number of the executives is, in the words of ABB's CEO, Jürgen Dormann, "the short-term focus of investors, which is driven by stock market dynamics rather than longer-term strategy and societal trends." Statoil's CEO, Inge Hansen comments: "The short-term outlook of many traditional investors constitutes an obstacle – investors tend to focus on quarterly or annual results, while it can take much longer to demonstrate the benefits from corporate citizenship." Marilyn Carlson Nelson of Carlson Companies adds, "The continuing pressure for short-term performance affects the ability of management to think long term. It is difficult for managers of corporations to 'do the right thing' with regard to CSR when being driven purely by profit-oriented investors. Investors must also be educated as to the long-term positive effects of CSR."

Lack of appropriate public policies and fiscal incentives, as well as different capital market traditions and structures, were also cited by several respondents as a reason for an overly short-term focus and an obstacle to integrating social and environmental considerations into investors' risk/return assessments and investment decisions. As Tariq Kirmani, the CEO of Pakistan State Oil commented, "Key obstacles for mainstreaming corporate citizenship initiatives, in most cases, are lack of public policy and tax incentives with respect to corporate citizenship." Several of the European CEOs commented in particular about their US-based investors having less interest in corporate citizenship issues, beyond corporate governance, and too much of a short-term, share-price driven focus.

In the introduction to their *2003 International Survey of Institutional Investors*, Russell Reynolds Associates offer a good summation of the challenge, "In our view, the tension between calling for long-term perspective and producing satisfactory short-term results will likely be one of the most pronounced issues in the years to come. What is the definition of long term? To an executive, three to five years may be an acceptable time frame in which to produce sustainable profitability, whereas an investor may view six months to one year as an acceptable time frame. Of course, it depends on the industry and market conditions, as well as national norms. In the United States, results are reported quarterly; in other markets, semi-annually is the norm. In capital-intensive industries such as energy, investments take decades to pay off; in the fashion industry, one season can make or break a retailer. Negotiating acceptable time horizons for realistic performance expectations will be a tough issue between executives and investors."

In summary, despite increasing investor awareness of corporate citizenship issues and their impact on business risks and opportunities, we are still at an early stage in terms of institutional investors integrating these issues into their research and investment decisions. In an effort to help move this process along, the World Economic Forum is working with AccountAbility on a project that is outlined in Box 6.

BOX 6: 'MAINSTREAMING RESPONSIBLE INVESTMENT'

The Global Corporate Citizenship Initiative of the World Economic Forum, in association with AccountAbility, has initiated a dialogue with a view *to improving understanding of impediments to and opportunities for broader integration of social and environmental aspects of corporate citizenship in mainstream investment policies and practices.* The context for this initiative is one of:

- Increasing importance of *private investment in economic development*
- Emerging concerns about the *qualities of investment management* with regard to risk assessment and investment decisions
- Growing awareness of the *potential materiality to investment performance* of social and environmental aspects
- Emerging *public policy debate and actions* about investor and broader corporate responsibilities.

The initiative is focused initially around a series of Roundtables that convene senior representatives from the investment community, corporate and regulatory communities, as well as labour and other stakeholder representatives. The first, hosted by Deutsche Bank in July 2003 in London, identified core constraints and opportunities along an 'investment chain' spanning the intended beneficiaries of institutional investments through to the practices of corporate investees, and their reporting on performance and outcomes. The second Roundtable, hosted by Swiss Re in New York in October 2003, focused on the pivotal relationship between the pension fund trustees and executives, and fund managers acting on their behalf.

The Roundtables to date and related research have highlighted that there were no simple answers to mainstreaming responsible investment. Several reasonably common viewpoints, however, did emerge, that together provide signposts to actions needed:

- *Mainstreaming requires that social and environmental issues lie at the heart of investment decisions*, rather than being 'limiters' on otherwise conventional investment strategies.
- *Underlying incentives, more than competency and information gaps*, best explain why social and environmental issues currently remain outside of the core 'investment value-chain'.
- *Upstream interventions offer significant potential leverage*, notably in impacting the relationships between intended beneficiaries, pension fund trustees and fund managers.
- *Downstream interventions*, such as enhanced corporate social and environmental reporting, will be most effective if clearly material to prospective business performance.
- *Market-based and regulatory interventions must be used together* rather than treated as opposites or alternative strategies.

The 'Mainstreaming Responsible Investment' project will convene a third Roundtable in early 2004, continuing its exploration of the investment chain through a focus on the role of other key actors, such as analysts and investment consultants, in driving pension fund instructions, and resulting investment behaviour and outcomes. It plans to conclude the initial phase of work with a publication near the end of the first half of 2004.

III Modes and Messages for Effective Communication

"Good corporate citizenship can clearly lead to improved business performance, but focusing only on a direct 'business case' is perhaps too narrow. It is about building and maintaining the intangibles, such as reputation, trust, employee pride and morale that represent an ever-increasing part of the value of a company. It is about understanding how business relationships with society affect those intangibles. And it is about recognizing how living the company's purpose and values, aligned in a positive approach to relationships with its stakeholders, can provide the direction and resilience the company needs for continued success in a fast-changing world."
Vernon J. Ellis,
International Chairman,
Accenture

In the following pages we highlight some of the good practices and tools that senior company executives are using to communicate the strategic importance of global corporate citizenship to their investors. We describe four areas of 'good communications practice' that we consider to be increasingly central to building trust and credibility with investors and other stakeholders on corporate citizenship issues:

- Frame corporate purpose, principles and values with clarity
- Emphasise the social contribution of core business
- Present a credible and measurable business case for corporate citizenship
- Ensure consistency and coherence of messages.

Although much has been said and written in recent years about the decline of the CEO, in an increasingly complex and often contradictory operating environment the role of the CEO and his or her executive management team is more crucial than ever. From the perspective of internal and external communication on corporate citizenship issues, their role is especially important in terms of: serving as stewards of the corporation's purpose and values; taking the lead on emphasizing the social contribution that business already makes through its core activities; acting as champions for developing and communicating a credible business case for corporate citizenship; and ensuring that the company's messages and actions are both consistent and coherent.

When it comes to communicating to investors, much of the focus is on articulating a business case for corporate citizenship. This is extremely important, but the survey's findings suggest that it is only one part of a four-part message that CEOs, CFOs, and other executives should communicate in order to be effective and credible when talking about their corporate citizenship. We examine each of these four messages in turn, drawing upon the experience of senior company executives who were interviewed and surveyed for this report, and end with some practical examples of tools used to communicate with investors.

1. FRAME CORPORATE PURPOSE, PRINCIPLES AND VALUES WITH CLARITY

Even when speaking to investors, corporate citizenship needs to be about more than simply 'making a business case' that links directly to bottom line benefit. It should also be a statement about what the company stands for and would stand by, even if this sometimes incurs costs, results in a lost business opportunity, or requires addressing tough global issues of relevance to business and society, but beyond the immediate competence of the individual company.

CEOs and CFOs have a crucial role to play, both internally and externally, in communicating their company's corporate purpose, principles and values – including to investors.

Sir Geoffrey Chandler, a former Shell executive who was responsible for developing Shell's first General Business Principles in 1976, argues, "I don't believe ethical behaviour should

depend on its paying. To suggest that doing right needs to be justified by its economic reward is amoral, a self-inflicted wound hugely damaging to corporate reputation. …Doing right because it is right, not because it pays, needs to be the foundation of business, with principle, not profit, the point of departure. There does have to be a choice about priorities. …If we are to preserve the most effective mechanism the world has known for the provision of goods and services – that is the market economy with the public limited company its main instrument – then it has to be underpinned by principle. Financial failures can destroy individual companies. Moral failure will destroy capitalism."[23]

"We live today in challenging and uncertain times. Every day it seems our fundamental beliefs and core values are tested against unanticipated events and difficult circumstances. And while we cannot always foresee the conditions we find ourselves confronting, we are best prepared if we stay committed to the sound principles and deliberate approach we have established to guide our enterprise."
Bruce Klatsky, Chairman and CEO of Phillips-Van Heusen, 2002 Annual Message to Shareholders

Values-driven companies are comfortable with emphasizing their core values and principles when speaking to investors, others less so.

Timberland is one example of a values-driven company. The company's commitment to 'commerce and social justice' is an integral part of who it is and how it markets itself. When outlining its four 'bold goals' to investors, 'be a top 10 employer of choice globally' and 'be the reference for socially accountable business globally' are presented on a par with 'deliver exceptional financial performance for shareholders' and 'deliver innovative and pragmatic product solutions that exceed consumers expectations for value and values.'

Douglas Daft, Chairman and CEO of Coca-Cola, stated in a recent speech, "How do we build trust? For all of our audiences, it's based on knowing what you stand for… and then saying what you'll do and doing what you say. Plato said, 'Good people do not need laws to tell them to act responsibly, while bad people will find a way around the laws'. To me, that gets to the heart of knowing what you stand for. It's pretty unambiguous: It's doing the right thing."

DuPont Chairman and CEO, Chad Holliday, as well as his CFO Gary Pfeiffer and other colleagues, emphasizes in speeches to investors, as well as to other stakeholders, "…sustainable growth is the overall goal of our company. We define sustainable growth as creating value for society and our shareholders while reducing environmental footprint throughout the value chains in which we operate." In a recent speech Holliday went on to conclude, "We want our employees and everyone associated with the company to understand that our mission of sustainable growth involves the pursuit of a noble purpose while growing profitably."

"Creating long-term value for our shareholders while concurrently ensuring the enduring viability of our human and a natural resource base is an important part of our business philosophy."
Dr Josef Ackermann, Chairman of the Group Executive Committee, Deutsche Bank AG

Nestlé is another company that clearly states its long-term commitment to sustainability as part of its overall corporate purpose and mission. As one of the company's investor relations managers explains, "Our approach to business is the creation of long-term sustainable value for all stakeholders, and this includes that we favour long-term business development over short-term profit. Our financial objective is to deliver sustainable, capital-efficient, profitable and long-term growth." This is also clearly expressed in the 'Nestlé Corporate Business Principles' and 'Nestlé Management and Leadership Principles'.

Speaking to shareholders at Merck and Co., Inc's 2003 Annual General Meeting, Raymond Gilmartin, Chairman, President and CEO, opened his presentation with the words, "The people of Merck are joined by an extraordinary sense of purpose – to discover and develop the best of medicines and to bring those medicines to people everywhere. …And mastering this purpose brings success to our people, our company, and you – our investors."

None of these CEOs are arguing that a focus on profit and superb execution of corporate strategy are unimportant, they are arguing that these need to be underpinned by sound principles, values and a long-term perspective. As Sir Mark Moody-Stuart, Chairman of Anglo American plc. and former Chairman of Shell has observed, " Without profits, no private company can sustain principles. Without principles, no company deserves profits."

2. EMPHASIZE THE SOCIAL CONTRIBUTION OF CORE BUSINESS

"Our overall view is that all companies are stewards of natural and human resources for subsequent generations around the world. …The long-term sustainability of any business or society has to do with the ability of leadership to think and act beyond the horizon of the current generation, rather than focus on one quarter of one year."
Marilyn Carlson Nelson, CEO of Carlson Companies

At the same time, business leaders need to be less defensive about their core role in society. They need to be able to demonstrate the societal contribution made not only by the delivery of goods and services but also by their economic multipliers, such as employment and income generation, taxes, technology transfer, training, supply chain management, innovation and wealth creation. Too often these are not even considered as part of a company's corporate social responsibility or corporate citizenship.[24]

Another message that few CEOs communicate when discussing their corporate citizenship to investors or other stakeholders, is the social contribution that comes from the responsibly managed economic impacts of the private sector. The current debate on corporate citizenship all too often positions it as an 'add-on' to a company's core business activities and their economic development impact, rather than seeing these as central to what corporate citizenship is all about.

As Lord Holme, former Deputy Chair of Business Action for Sustainable Development and an adviser to Rio Tinto observes, "We need to get better at measuring and communicating the contribution that companies make to economic development." A comment echoed by Bruce Klatsky of Phillips-Van Heusen, "We need to do a better job at raising awareness of the development benefits of successful, legal, well-governed private investment." Or as Miles White, CEO of Abbott Laboratories, commented in a recent speech, "I sometimes think we have lost the sense of marvel and wonderment that once accompanied the process of discovery. We seem to take innovation for granted today. And yet everyday, in labs and research centers across the globe, innovators in medicine are engaged in a process of exploration to cure cancer and heart disease, diabetes and AIDS, helping people live longer, healthier lives."

The ability of business to discover, develop and deliver goods and services in a way that meets peoples needs and generates profits is a central part of a company's social responsibility in its own right. If done in a manner that moves beyond legal compliance to reflect international norms and standards in areas such as corporate governance, human rights, labour, the environment, and bribery and corruption, the economic impacts of business can make a major difference to people's lives and to tackling global poverty.

In an article entitled 'Learning to Grow Again' in the Economist's annual report *The World in 2004*, Ian Davis, Managing Director of McKinsey, comments, "The drive for growth need not be at odds with environmental and other societal concerns. Defensiveness, however, only provides ammunition to the rock-throwers. Business leaders should demonstrate more confidence in their moral position as creators of wealth, opportunity and rising living standards, and work proactively to build trust between their organizations and society at large."[25]

3. PRESENT A CREDIBLE AND MEASURABLE BUSINESS CASE FOR CORPORATE CITIZENSHIP

Each board of directors and the entire senior executive team need to be able to define, explain and ultimately evaluate the ethical, social and environmental risks and opportunities faced by their company and industry sector.

Being able to articulate a clear business case for corporate citizenship, underpinned by the two messages already outlined above, is the third key communications challenge for CEOs, CFOs and other executives. The discussion around a company's purpose and moral responsibility to society might appeal to certain investors, but for most investors it is the measurable impact that counts – often viewed in terms of either risks or opportunities.

As outlined in the previous section, there is now growing consensus on the key factors that constitute the business case for responsible corporate practices. Although the ranking may vary slightly, and some drivers will be more important in certain industry sectors and countries than others, most surveys list the following factors that can create both risks and opportunities for business:

- Protecting and enhancing reputation, brand equity and trust
- Attracting, motivating and retaining talent
- Managing and mitigating risk
- Improving operational and cost efficiency
- Ensuring licence to operate
- Developing new business opportunities – new products and services, new markets, new alliances, new business models
- Creating a more secure and prosperous operating environment.

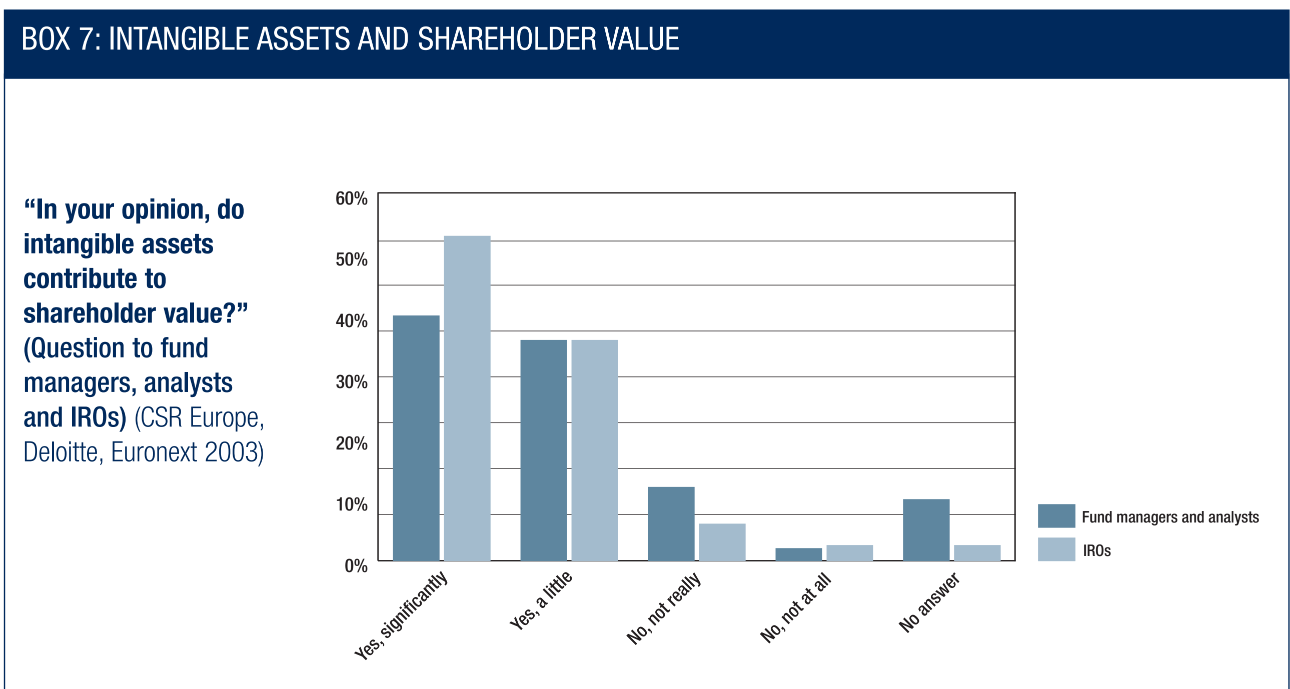
"In general, good performance in CSR is considered a key indicator to quality management. A strong reputation for CSR is seen as a binding agent for the intangible assets that deliver shareholder value such as people management skills, management quality, brands, trust, product quality and emotional appeal, among other assets."
Bill Parrett, CEO,
Deloitte Touche Tohmatsu

The CEOs and CFOs who responded to the World Economic Forum survey covered all of these issues. Many emphasized the important and growing link between corporate citizenship, the value of a company's intangible assets and its financial performance.

Anthony Trahar of Anglo American, for example, speaks of the intangible assets that are captured in a company's stakeholder relationships, "Since much of the justification for giving the corporate responsibility agenda a high priority relates to the maintenance of goodwill and relationships with stakeholders, it is clearly helpful for management that investors increasingly see the value of such intangibles and, at the very least, see the downside risks to value from failing to uphold high standards." Inge Hansen of Statoil emphasizes, "We do not engage in corporate citizenship issues for publicity reasons only, but because we wish to protect existing and create new intangible assets. Investor awareness in this area depends on whether corporate citizenship issues are seen as relevant to core business, financial profits and sustained growth."

As intangible assets constitute an ever-growing percentage of a company's brand equity and corporate value, this is an area that will continue to attract growing investor interest. The following graph from the Deloitte, CSR Europe and Euronext survey of European fund managers, analysts and investor relations officers captures the growing awareness of intangible assets.

BOX 7: INTANGIBLE ASSETS AND SHAREHOLDER VALUE



"In your opinion, do intangible assets contribute to shareholder value?" (Question to fund managers, analysts and IROs) (CSR Europe, Deloitte, Euronext 2003)

(i) Protecting and enhancing reputation, brand equity and trust

The most valuable intangible asset a company has is its reputation and the trust that consumers and other stakeholders have in the company and its brand. Research by Professor Charles Fombrun, Executive Director of The Reputation Institute at New York University's Stern School of Business, shows that a 5% change in the reputation of a company can equal a 1-5 % change in its market value and that companies with a high reputation tend to weather storms better than those of low reputation.[26]

"If a company can get their corporate citizenship activities right, intangible asset value such as reputation and brand will be enhanced."
Uwe Dörken, CEO, DHL

In research conducted by SAM Sustainable Asset Management, 73% of the companies analyzed listed 'reputation enhancement' as one of the key areas where their corporate citizenship activities add to their value generation/competitiveness. SAM's research shows that having a proactive approach to reputation and brand management is particularly important for companies operating in markets such as Europe, North America and Australasia, where journalists, activists and litigators can shine an unrelenting and often far-reaching spotlight on corporate activities. This can raise challenges as Marilyn Carlson Nelson points out, "CSR tends to be most important to consumers and corporations in developed nations. In a global economy, this puts tremendous competitive pressures on companies that would like to do the right thing but are facing low-cost rivals from developing nations who do not have CSR on their agenda, and hence, can lower their pricing for short-term gain."

Few companies have actually developed metrics and gathered data to empirically prove the value of CSR to reputation. The BT Group, however, has shown it can be done. The company collects monthly data from thousands of customers in the United Kingdom and has been able to identify that its CSR activities account for at least 25% of the dimensions that drive customer satisfaction and the company's reputation.

Reputation and brand management is obviously particularly important for companies whose brands are well-known consumer brands, such as Coca-Cola, Diageo, Phillips-Van Heusen and Timberland in our survey. Phillips-Van Heusen, for example, owns or licenses ten of the most successful apparel and footwear brands in the world, including its recent acquisition of Calvin Klein. They recognize that the "strength of our company is the strength of our brands" and understand the reputation risks associated with social or environmental problems along their supply chain. As a result, the company has developed guidelines for its suppliers, contractors and business partners and is actively engaged in collective initiatives such as the Fair Labor Association, through the direct involvement of Chairman and CEO, Bruce Klatsky.

As Douglas Daft of Coca-Cola describes it, "Selling is a complex interaction between the marketer and the marketplace, where perceptions, preferences and buying decisions are increasingly based on an organization's social contributions. …These opinions make it clear that fostering the trust and confidence of everyone we touch is a prerequisite for long-term business success."

Reputation and brand management is also key for companies whose products are linked to 'hot' public issues and public policy debate, such as health concerns in the fast food industry; access to essential medicines for the pharmaceutical industry or for companies operating with large workforces in Africa; climate change for energy, transport, financial institutions and automobile companies; and responsible drinking for the alcohol industry. As Diageo's CEO Paul Walsh comments, "It is common knowledge that, treated irresponsibly, alcohol products can lead to a range of health and social problems. That's why, as the world's leading premium drinks business, we have made social responsibility and alcohol a primary focus."

"Most of all, I want Diageo to become a byword for integrity, social responsibility and commitment to the communities in which it operates. I want a business with soul. A business which leads the industry in self-regulation and as a trusted partner of government, delivers creative solutions in the promotion of responsible drinking."

Paul S. Walsh, Group Chief Executive, Diageo plc, 2003 letter to shareholders

Walsh recognizes, as do his peers in other industries who take similar leadership positions, that there are risks associated with such leadership on 'hot' public issues – risk of failure, risk of losing focus, risk of attracting cynical responses, and the challenge of reconciling the company's overall corporate philosophy with local market needs and conditions. Companies such as BP and Shell took similar risks when they acknowledged the danger of climate change ahead of their industry peers. Anglo-American took a risk when it became the first large company to publicly commit to providing AIDS treatments to all its employees and their dependants. Merck took a risk in forging an unprecedented partnership with the Bill & Melinda Gates Foundation and the Government of Botswana to help the country develop a national policy framework for tackling HIV/AIDS.

These are not the traditional roles of business, but in a complex global environment failure to act on these issues may create greater long-term risk to the company's brand, reputation and licence to operate, than remaining silent. Ultimately, good corporate leadership requires standing up and speaking out on matters of principle and long-term importance to the company, no matter how complex and controversial these may seem in the short-term.

(ii) Attracting, motivating and retaining talent

Almost all of the companies surveyed mentioned the positive impact of their corporate citizenship practices and corporate values in attracting, retaining and motivating employees. In research conducted by SAM, 64% of the companies analyzed listed 'talent attraction' as a key value driver from their corporate citizenship activities. Being able to attract and keep the best talent is especially important to:

- Companies that are in a growth phase or undergoing a merger or acquisition;
- Research-based companies that need the best technical and scientific skills, such as those in the pharmaceutical and energy sectors; and
- Companies that sell their intellectual capital to others, such as consulting and auditing firms.

Ethics are slowly but surely making their way onto the mainstream business school curricula; students have launched codes of ethics and ethical oaths for voluntary sign-up, and academics are increasingly showing an interest in the topic of corporate citizenship as a research and teaching area. The consulting firm, Arthur D. Little comments: "We find that attracting and retaining the best talent from Europe's top business schools and the UK's top universities requires us to demonstrate commitment to corporate citizenship in our consulting services." Accenture has a similar experience. According to the International Chairman, Vernon Ellis, "Graduates especially, but also more experienced applicants are interested in the values and approach of the company to corporate citizenship/corporate responsibility." The CFO of Phillips-Van Heusen, Manny Chirico, speaks about the importance of corporate values and open, honest communication in helping employees tackle some of the restructuring challenges associated with mergers and acquisitions.

Ethics and corporate citizenship are also becoming part of leadership development and induction programmes for new employees, as well as part of employee surveys conducted by companies like Merck and Timberland. As Jeff Swartz, the CEO of Timberland tells us, "64% of our employees say values play a strong role in their decision to work at Timberland." "Furthermore", Swartz comments, "I think employees at Timberland used to be hired hands. They aren't any longer. They are paid volunteers. If we don't stand for purpose, we will not attract talent to this company. So ethics matter."

Employee retention and motivation is also affected by corporate citizenship. An interesting story came from Merck, telling of how a speech about the company's engagement in Botswana to tackle HIV/AIDS had a visible boost on the morale and pride of a US-based sales team, faced with declining domestic demand for its HIV/AIDS drugs.

"Growing aggressively is crucial in a tough environment – we're moving from being a big small company to becoming a small big company, growing in terms of complexity and a more decentralized and dispersed workforce – our values help to keep people connected and focused. As a growth company we also need to attract talented people and our values attract a disproportionate amount of interest."
Brian McKeon, CFO, Timberland

PricewaterhouseCoopers is one of a growing number of companies that are starting to integrate corporate citizenship issues and activities into its executive development programmes – both to raise awareness of these issues and to develop new skill sets for its future leaders to help them better serve their clients. The company's Ulysses programme selects high potential partners to participate in an eight week programme consisting of a workshop on global trends and corporate responsibility followed by community projects in developing countries undertaken by cross-functional, multicultural teams.

(iii) Managing and mitigating risk

In the face of a growing complexity and new, often non-traditional risks, companies are starting to align their corporate citizenship with their broader risk management strategies. As N. R. Narayana Murthy of Infosys observes, "A good value system and robust risk management system that are critical components of the corporate citizenship agenda, alleviate investor risk perception of a corporate."

The companies surveyed for this report identified a wide range of risks associated with corporate citizenship issues. These include:

- **Risks at the level of the individual company** that may result from a reputation crisis, such as an ethics, social or environmental scandal, leading to consumer boycotts, negative media exposure, activist agitation or the risk of costly litigation and remediation.
- **Risks along the corporate value chain** associated with a crisis in one of the company's contractors, suppliers or business partners.
- **Risks at the industry level or national level.** These range from the threat of climate change to geopolitical uncertainty, conflict and corruption, and the outbreak of diseases, such as HIV/AIDS and SARS. Issues that a company cannot deal with on its own, but at the same time, cannot afford to ignore as a threat to its long-term business success and viability.
- A number of the CEOs also cited **inequality, lack of economic empowerment** and **lack of access to basic goods and services**, such as education, water, credit and information technology as a risk to their own long-term success.
- Several felt that growing **anti-globalization and anti-capitalist sentiment** or increased resentment of foreign investment in major emerging countries also posed a potential risk that could be addressed, at least in part, by responsible business practices.
- **Economic prospects** were high on several lists as a risk factor.
- A number of CEOs felt that **China** – and the combined challenge of business development and good corporate citizenship in this massive emerging market – represented both a major risk and opportunity.
- **The threat of regulation** that is either too hasty, too restrictive or not based on sound scientific evidence was a concern to several of the CEOs – especially those in markets or products that are 'hot' public policy issues as outlined in an earlier section.

As the Association of British Insurers argues in its new publication, *Risk, Returns and Responsibility*[27], "So far as underlying corporate performance is concerned, risk aspects of corporate responsibility are as important as bottom line impacts. Companies need to incorporate these matters into strategic risk management, because they can have important implications for drivers such as brand value, market acceptability, human capital and new technology. Many companies are not yet managing these systematic risks adequately, posing threats to shareholder value, which investors need to take into account."

Risks obviously vary across regions and industry sectors. According to Anglo American: "Clearly the issue of HIV/AIDS and black economic empowerment are most pertinent to South Africa. In Latin America and Canada, issues connected with the rights of indigenous peoples are of significance. 'Green/environmental' issues look larger as risks in Europe

than some of the social risk areas which are of greatest concern in the developing countries." This view is echoed by DHL: "Clearly issues such as HIV/AIDS and human rights will have more impact in some parts of the world than others. Some countries, for example in the Nordic area, are much further advanced in their response to environmental concerns, whereas others must focus on building efficient infrastructure and dealing with poverty. DHL does not have a 'one-size-fits-all' policy and seeks to develop an appropriate approach locally which is guided by global values."

Although risks may vary locally, their negative impact can still be global if the company fails to manage or mitigate them. The CEO of Statoil expresses it this way, "Risks vary, however a risk that originates from and has immediate effects on a project in a specific geographic area is likely to have repercussions on the whole Group, particularly on reputation." Deloitte's CEO agrees, "There are regional differences. However, given the globalization of our clients' business and our own organization, issues in some geographies may impact business in other geographies. Hence, certainly from a risk management perspective, the scope of interest is global."

(iv) Improving operational and cost efficiency

Research by SAM Sustainable Asset Management shows that companies operating in markets such as Asia, Japan and Latin America cite operational efficiency as the greatest value-added or business benefit that they get from sustainability or corporate social responsibility. ABB is one of the companies in our survey that sees this as a key benefit, "Sustainability for us – and for our customers – means saving energy, optimizing use of natural resources, lowering environmental impact and hazardous waste. Add to this, playing a positive contributing role wherever we do business, so we're welcome by the communities where we operate, an attractive employer and a sound investment." Siemens and ING also list cost-efficiency and money saved through environmental management and eco-efficiency, as key benefits to their company's bottom line. Equally, benefits such as low staff turnover, low regulatory fines and penalties, and less lawsuits and litigation aimed at the company as a result of having a reputation for responsible business practices, can help to lower insurance premiums and other operating costs.

"A licence to operate depends on both access and acceptance. Access is the formal licence or concession granted by governments. Acceptance is the informal licence granted by societies. Acceptance – or lack thereof – is based on how stakeholders assess the economic, environmental and social impact of a company or a project."
Inge Hansen, President and CEO, Statoil

(v) Ensuring licence to operate

Licence to operate – both regulatory and social – is a key driver of corporate responsibility for companies that either work closely with governments, operate in a highly regulated environment – such as the pharmaceutical, telecommunications and water sectors – or have a large 'footprint' in terms of their impact on host countries and communities – such as the extractives, infrastructure or agribusiness sectors. In SAM's research, 55% of the respondents listed 'maintaining licence to operate' as a key argument for their corporate citizenship activities. For the 'Basic Resources' industry group, this went up to 84%, closely followed by the 'Healthcare' industry with 73%.

The executives of major extractive companies offer similar and consistent messages. As explained by the CEO of Anglo American, Anthony Trahar: "Taking on the CSR/sustainable development agenda is intrinsic to the long-term preservation of Anglo American's licence to operate. Achieving an understanding of the views and priorities of other stakeholders is a significant element in managing risk. Building a reputation for behaving responsibly is a significant factor in being (an employer of choice and) a partner of choice for governments and potential business partners." A similar argument comes from another mining company, Rio Tinto, as expressed by the CFO Guy Elliott: "Besides the ethical imperative for CSR, which I take for granted, the business case rests first on risk mitigation. Without CSR, a mining company may eventually be unwelcome as an investor in its host environment. Secondly, CSR is seen as important by governments and others who are potentially sellers or JV partners in mining projects. Leadership in CSR will enhance our access to them."

Thames Water is another example of a company that has an extensive 'footprint' in the communities in which it operates and the need to earn both a regulatory and social licence to operate. As is the case with many utilities and infrastructure companies that are offering private management, technology and capital to help deliver public goods, government bodies play several roles as regulators, investors and clients. At the same time, the end users and the general public often have concerns about private sector involvement in the provision of basic services such as water, electricity and public transport. These factors make it imperative for privately owned utility companies to demonstrate that they are genuine partners with government and can be profitable without placing profit above the public interest. Earning a licence to operate under these circumstances requires a combination of reliable, accessible and cost-effective service delivery, regular consultation with local governments and communities, and joint public-private investments in community projects to ensure that the poorest communities also get access to basic services.

"We have to demonstrate to investors that we can deliver reliably in the short term, while also investing to secure the long term by renewing our asset stock and carrying out research to prevent unintended consequences and negative environmental impacts from our operations. Public accountability is an essential element of our business success. It is very important to be joined up in terms of our vision, values, community responsibility and service delivery."
Bill Alexander, Group Chief Executive, RWE Thames Water

Government regulation and licence to operate is also an issue for companies with less heavy physical footprints than the extractive and infrastructure industries. The pharmaceutical sector is one example, where access to essential medicines has become a strategically important issue in recent years. By engaging to solve problems, pharmaceutical companies can build trust and gain credibility in the public debate on access to medicines and demonstrate that the industry can be a partner with government, thereby serving the public interest while also being profitable.

Miles White, Chairman and CEO of Abbott Laboratories, comments, "We have the opportunity and responsibility to extend our core expertise, products and people for the most positive impact in the world. We continue to seek the right balance in meeting our financial, environmental and social responsibilities and this means putting partnerships and community engagement at the centre of our work. For Abbott this involves listening to needs and developing solutions together with governments and local partners."

Finding a balance between regulation and voluntary action is a key issue in the corporate citizenship debate. From a corporate perspective, taking proactive voluntary measures to improve social and environmental performance and being a credible participant in public policy discussions can help to protect the company's licence to operate and mitigate the risk of inappropriate or overly restrictive regulations being imposed, which may result in high operational compliance and, in some cases, legal costs. A growing number of companies are working with their governments on co-regulation, national action plans, charters and other voluntary frameworks. In South Africa, for example, in consultation with the private sector the government has recently implemented a Mining Charter and Financial Charter, which essentially serve as a roadmaps for the wider role that companies in these two industries should play in society. The CEO of Chilean-based Codelco, Juan Villarzú, cites "voluntary agreements and action plans with national and regional authorities on non-regulated environmental issues" as key components of his company's sustainable development framework.

(vi) Developing new business opportunities

Companies interviewed for this report cited the following three key areas of business opportunity that are closely linked to corporate citizenship issues:

- The development of environmental technologies, products and services;
- The production of new products and services to meet growing consumer interest in more healthy lifestyles;
- The provision of affordable goods and services to poorer consumers and communities, especially in developing countries; and
- The creation of new market mechanisms such as carbon trading.

"Discussions with our investors aren't necessarily framed under the heading of corporate responsibility – but we talk to them frequently about the forces shaping our industry such as the market, scientific developments, and the political and regulatory environment. We need to demonstrate that we are proactive in addressing issues related to these forces that can have an impact on the company's share price, for example, legal action, erosion of intellectual property, imposition of price controls and industry standing with the general public."
Raymond Gilmartin, Chairman, President and CEO, Merck & Co., Inc

From an investor perspective these opportunities represent potential for new value creation and competitive positioning by the companies they invest in. Lafarge, for example, cites the emerging carbon emissions trading market as a major potential business opportunity for the company and Anglo American speaks about the business opportunities associated with the Clean Development Mechanism. Abbott and Merck emphasize their opportunity to develop and market products that improve access to healthcare and address unmet health needs. Nestlé and Coca-Cola talk about new product developments that offer consumers more options in terms of health, nutrition and wellness. A number of companies see long-term growth potential by meeting the needs of people in emerging markets who currently cannot afford their products and services – ranging from access to basic services such as medicines, water and electricity, to information technology and branded consumer goods.

(vii) Building stable and prosperous operating environments

For companies operating in developing countries, the risks and opportunities related to the functioning and development of local markets and society are particularly important. According to Jaime Augusto Zobel de Ayala of Ayala Corporation, "We have always realized that there is a strong link between broad social development and the potential for long-term corporate profitability." Zobel adds, "Investors are increasingly sophisticated nowadays and we believe that they are acutely aware that CSR/corporate citizenship and the fortunes of companies in the private sector are inextricably linked, especially in emerging or developing markets such as the Philippines. This is because broad social development will effectively be able to expand the current market boundaries that companies in emerging markets face, therefore increasing the size of the pie in the long term."

N. R. Narayana Murthy, CEO of the India-based IT company Infosys, emphasizes the company's broad commitment to, amongst other things, "working with government and regulators to speed operational processes, reduce transaction costs and increase velocity of business to corporates in general and the software industry in particular and helping people and communities to enhance the living conditions of the rural population, and to improve education."

Pakistan State Oil adds to this explaining how "benefits of the company's progress and financial gains must flow down to the public at large at the grassroots levels, particularly to the under-privileged and deprived sections of the populace irrespective of ethnicity, caste and creed."

Raymond Gilmartin of Merck explains how the company's support for the communities and countries in which it operates has evolved to include not only philanthropic product donations, but increasingly more complex public-private partnerships to support the delivery and operational capacity of healthcare systems with the aim of creating a better overall enabling environment. And Uwe Dörken of DHL comments, "We harness our key competencies to help governments and local partners with 'capacity building'. For example, we harness our logistics capabilities to help out in post-conflict situations (e.g. delivering medical supplies to Iraq) or when natural disasters strike."

An important emerging theme is the impact of corporate citizenship on the competitiveness not only of individual companies, but also nations. In December 2003, a consortium of business networks, non-profit organisations, research bodies and business schools, launched the world's first index looking at the relationship between national competitiveness and indicators of corporate responsibility such as: corporate governance structures; ethical business practices; progressive policy formation; building human capital; engagement with civil society; contributions to public finance; and environmental management.[28] Based on research by AccountAbility and the Copenhagen Centre, this

index compares over 50 countries. While the creators of the index acknowledge that it raises as many questions as it answers, it offers an important new perspective on the potential link between a nation's underlying competitiveness and productivity and the manner in which its business community deals with social and environmental issues.

4. ENSURE CONSISTENCY AND COHERENCE OF MESSAGE

One of the greatest causes of distrust, among investors as well as other stakeholders, is inconsistent messages and incoherent policies from business. Corporate leaders need to provide similar messages and analysis in their social and environmental reports, as they do in their annual report and ensure messages are consistent in all their stakeholder communications. They must ensure that their social and environmental commitments extend to all aspects of the company – from the boardroom to the mailroom, from public policy positions to pension fund options, and from headquarters to far-flung operations.

The final good practice in communicating the importance of corporate citizenship to investors is to ensure consistency and coherence of message. All too often companies have one message for their investors and a different one for other stakeholder groups. Or they invest in R&D projects and philanthropic programmes to address key social and environmental issues such as climate change and labour standards, while adopting a less enlightened, and in some cases highly obstructionist, public lobbying position through their government relations department or trade associations. Or they engage actively with socially responsible investment fund managers on their social and environmental performance, but do not offer an SRI option to the beneficiaries of their own corporate pension funds. Research by SAM, Sustainable Asset Management, for example, shows that only 16% of the companies analyzed offered SRI or sustainability pension plans as an option to their employees. 70% of companies did not offer such an option and 13% didn't know.

The need for alignment between the company's external communications and between its stated values and corporate practices is crucial in building trust with all stakeholders, including investors.

There are a variety of tools and mechanisms that CEOs, CFOs and investor relations officers (IROs) use to engage with their shareholders on corporate citizenship related issues. We highlight some of the most commonly used mechanisms and good practices identified by the World Economic Forum's Global Corporate Citizenship Initiative survey in Box 8.

BOX 8: TOOLS FOR IMPROVING COMMUNICATION ON CORPORATE CITIZENSHIP TO INVESTORS

Speeches or presentations to investors: 83% of the companies surveyed by World Economic Forum claimed to be speaking to targeted groups of investors about these issues, whether it is through meetings or conference calls with SRI investors or answering questions at the annual shareholder meeting. Some companies, such as Timberland include an overview of their corporate citizenship philosophy and practices in their presentations to mainstream investors. Anglo American and Nestlé both schedule regular calls with SRI investors. Statoil includes corporate citizenship in its presentations on its Capital Markets Day, an annual conference where company management presents updates on corporate performance, targets and strategy to investors, analysts and the press. ING organized, in cooperation with Shell, an investors day on sustainability. The Coca-Cola company organises visits to field locations, for example in Asia and Europe, for its investors, and these often provide more time and opportunity for detailed discussions on the company's non-financial performance.

Issues addressed in the annual report: 95% of the companies surveyed provided some mention of their corporate citizenship performance in their annual report, although the level and detail with which these issues were addressed varied greatly from a few sentences in the chairman or CEO's annual letter to shareholders to entire sections dedicated to these issues. A growing number of companies are also producing dedicated social and/or environmental reports. In its 2002 International Survey of Sustainability Reporting, for example, KPMG estimated that almost half (45%) of the Fortune 250 companies now produce these reports compared to 35% in 1999.

Issues addressed in the investor section of the company website: 64% of the companies address, in one way or another, corporate citizenship issues on their investor relations page. Several companies, like Abbott, Accenture, Anglo American, Diageo, Nestlé, Phillips-Van Heusen, Rio Tinto, RWE Thames Water had direct links from their investor relations page to information on corporate citizenship issues and corporate governance. Merck's investment relations page starts with "Discover how Merck's commitment to improving the quality of life sets the foundation for a strong, stable company positioned for long-term growth." Almost every European-based company that participated in the World Economic Forum survey was ranked in the Financial Times November 2003 list of Europe's top 150 corporate websites for investors and financial analysts.[29]

Issues addressed in workshops organized with investors: Some 57% of the companies reported to be engaging more actively with investors in addressing corporate citizenship issues through hosting or participating in workshops. Examples include a meeting hosted by Diageo at HSBC to discuss their corporate citizenship work to a group of 35 investors from the mainstream and SRI communities. Nestlé participated at an investor discussion hosted by JP Morgan on the topic of obesity and how this can influence the industry.

Internal financial and corporate citizenship task forces on metrics: In order to be more effective in evaluating and communicating their corporate citizenship performance to investors and other stakeholders, leading companies are developing Key Performance Indicators (KPIs) and metrics to measure and report on social and environmental impacts. Timberland is one example of a company that has established an internal working group consisting of staff in both the company's financial and public affairs departments to develop a set of effective and credible metrics. Others such as Diageo, Rio Tinto, Anglo American, ABB, Statoil, Larfarge and DHL are piloting KPIs and metrics for their social and environmental performance.

Explicit links made with corporate governance and business principles: Several of the companies make clear and explicit links between their corporate governance, corporate purpose and principles statements, and their corporate citizenship activities. Coca-Cola, for example, offers a link to the company's code of business conduct underneath its share price in the investor relations section of its website. Shell, Rio Tinto, Accenture and Merck are among the companies that mention their business principles under the corporate governance section on their website, and Nestlé's Corporate Business Principles make an explicit statement on how the company favours long-term business development over short-term profit.

Board commitment to corporate citizenship: A clear indication to investors and other stakeholders that a company is serious about managing the risks and harnessing the opportunities associated with corporate citizenship is how these are addressed at the level of the company's board of directors. Is there a board committee dedicated to addressing these issues? Or does the company have an executive committee chaired by the CEO or another senior executive that involves the company's financial and investor relations team and reports on a regular basis to the board? Has the company established an external advisory or expert group to inform and advise its board members on key corporate citizenship risks and opportunities? What type of training does it require of its non executive board directors in the field of corporate citizenship? These are all mechanisms and tools that can help the company manage its corporate citizenship issues more strategically, while sending a message to investors that the board takes these issues seriously. It is estimated by SAM Sustainable Asset Management, the Conference Board and others that between 20-30% of Fortune 500 companies have now established board committees dedicated to addressing corporate social responsibility, corporate citizenship, sustainability and/or public issues.

Statements of collective action: Another mechanism for moving the agenda forward on issues related to corporate citizenship, and at the same time communicating a company's focus on these issues to investors and other stakeholders, is for CEOs, CFOs and other senior corporate executives to play a personal and active role as participants in collective leadership initiatives and statements. This can include industry focused initiatives such as the Fair Labor Association, the International Council on Mining and Metals, the Extractive Industries Transparency Initiative, UNEP Finance Initiatives, the Equator Principles and the Corporate Citizenship Principles that have been developed by a working group of the World Economic Forum's Logistics and Transportation Governors Group. Other collective initiatives are focused on a national or regional basis, and some are aimed at addressing a specific challenge, such as the Global Business Coalition on HIV/AIDS, the Global Reporting Initiative and the World Economic Forum's Global Health Initiative.

IV Conclusions

This report has outlined anecdotal and empirical evidence of a growing awareness among mainstream investors of the importance of intangible assets and responsible business practices when it comes to making risk/return assessments of the companies they invest in. Good corporate citizenship is increasingly seen to have an impact on risk and reputation management; efforts to build trust and good stakeholder relationships with employees, consumers, regulators, suppliers and local communities; operational efficiency; innovation; the development of new business opportunities; and the creation of long-term shareholder value. Despite these trends, many in the investor community – pension fund trustees, fund managers, buy-side and sell-side analysts, researchers and financial consultants – appear to remain focused almost exclusively on short-term results and financial performance indicators.

They rightly argue that their ability to take social and environmental considerations into account is impeded by the lack of common and rigorous definitions of corporate citizenship, sustainability and corporate social responsibility, and the lack of quantifiable and comparable performance metrics. These factors, combined with lack of fiscal and other incentives, a mismatch in time horizons and lack of relevant skills and competencies in both the corporate and investment community, suggest that we are still a long way off from seeing socially responsible investment practices move from niche product to mainstream investment strategy. The 'Mainstreaming Responsible Investment' dialogue that is being conducted by the World Economic Forum's Global Corporate Citizenship Initiative in association with AccountAbility – described in Box 7 – is exploring these and other obstacles in more detail and will produce a set of recommendations in 2004 on how the investment community and companies can address some of the obstacles.

By starting the conversation and experimenting with new approaches – both inside their companies and externally – leaders in both the corporate and financial sectors can move the agenda forward. They can play a leadership role in communicating why good corporate citizenship matters, to business, to investors and to society.

In terms of individual company action, CEOs, CFOs, Investor Relations Officers and heads of major business units, can investigate the feasibility of and experiment with some of the tools and mechanisms outlined in Box 8:

- Making **speeches or presentations** on the strategic importance of corporate citizenship to investors and other key stakeholders;
- Placing greater emphasis on corporate citizenship issues, risks and opportunities in the **company's annual report**, as well as producing more detailed environmental, social or sustainability reports;
- Addressing corporate citizenship issues either directly in the investor section of the **company's website**, or offering clear links between the investor section and the corporate citizenship section of the website;
- Hosting or participating in **workshops with investors** focused on specific corporate citizenship issues, risks and opportunities;

- Establishing **cross-functional internal working groups**, consisting of the company's financial experts and line managers from key business units as well as corporate citizenship teams, to develop corporate citizenship performance indicators and metrics;
- Making more **explicit links** between the company's corporate governance framework, its business principles or values, and its corporate citizenship policies and activities;
- Addressing corporate citizenship issues more strategically at the level of the **Board of Directors** through establishing board committees to address these issues; appointing an executive committee to report regularly to the board on these issues; creating an external advisory or expert group to advise the board on key corporate citizenship risks and opportunities; and integrating these issues into director education and awareness programmes;
- Initiating and/or participating with other companies – at the level of the CEO or senior executives – in **joint statements and initiatives** that provide a collective voice and/or collective action on key social and environmental issues of relevance to a particular industry sector or geographic region. CEOs, CFOs and other senior executives can also support collective initiatives that are targeted specifically at improving the quality and quantity of corporate information and metrics on ethical, social and environmental issues, such as the Global Reporting Initiative, UNEP's Finance Initiatives and the World Economic Forum's Global Greenhouse Gas Register.

The experience of the CEOs and CFOs participating in the Global Corporate Citizenship Initiative, suggests that effective communication of the strategic importance of corporate citizenship to diverse investors is possible. Four golden rules for communicating the importance of corporate citizenship emerge from the responses of these business leaders:

- ***Frame corporate purpose, principles and values with clarity*** – Even when speaking to investors, corporate citizenship needs to be about more than simply 'making a business case' that links it directly to bottom line benefits. It should also be a statement about what the company stands for and would stand by, even if this sometimes incurs costs or results in a lost business opportunity.
- ***Emphasize the social contribution of core business*** – At the same time, business leaders need to be less defensive about their core role in society. They need to be able to demonstrate the societal contribution made not only by the delivery of goods and services, but also by their economic multipliers such as employment and income generation, taxes, technology transfer, training, supply chain development, innovation and wealth creation.
- ***Present a credible and measurable business case for corporate citizenship*** – Each board of directors and executive team needs to be able to define, explain and ultimately measure the ethical, social and environmental risks and opportunities faced by its company and industry sector.
- ***Ensure consistency and coherence of message*** – A major cause of distrust, among investors as well as other stakeholders, is inconsistent messages and incoherent policies from business. Corporate leaders need to provide similar messages and analysis in their social and environmental reports as they do in their annual report and ensure messages are consistent in all their stakeholder communications. They need to ensure that their social and environmental commitments extend to all aspects of the company, from the boardroom to the mailroom, from public policy positions to pension fund options, and from headquarter functions to far-flung operations.

One of the greatest fallacies about corporate social responsibility or corporate citizenship is that it is easy – a philanthropic cheque written here and a compliance box ticked there. This could not be further from today's reality. Balancing long-term goals with short-term imperatives and managing and accounting for a plethora of non-traditional risks and opportunities, calls for new leadership skills and new approaches to communication.
It also calls for new types of cooperation. Investors and corporations can do much to work together in a manner that makes sound business sense, while also increasing our common ability to manage risk and promote prosperity.

Footnotes:

1 Speech by Klaus Schwab at opening session of World Economic Forum Annual Meeting, Davos 2003
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29 *Europe's top 150 corporate websites for investors and financial analysts* – researched by Hallvarsson and Halvarsson. FT-IT Review, November 26, 2003.

OTHER REPORTS IN THE GCCI SERIES:

- ***Global Corporate Citizenship: The Leadership Challenge for CEOs and Boards***, World Economic Forum and The Prince of Wales International Business Leaders Forum, 2002: The report provides a framework of practical steps for chief executives, board members and executive management teams to refer to in directing their company's impact on society and its relationships with stakeholders.
- ***Responding to the Leadership Challenge: Findings of a CEO Survey on Global Corporate Citizenship***, World Economic Forum and The Prince of Wales International Business Leaders Forum, 2003: The report summarizes the findings of a global survey of the CEOs engaged in the GCCI. It profiles practical examples of CEO and board leadership in action.

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The IBLF works strategically with business, civil society and the public sector in transition and emerging economies in order to achieve socially, economically and environmentally sustainable development. **(www.iblf.org)**

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