

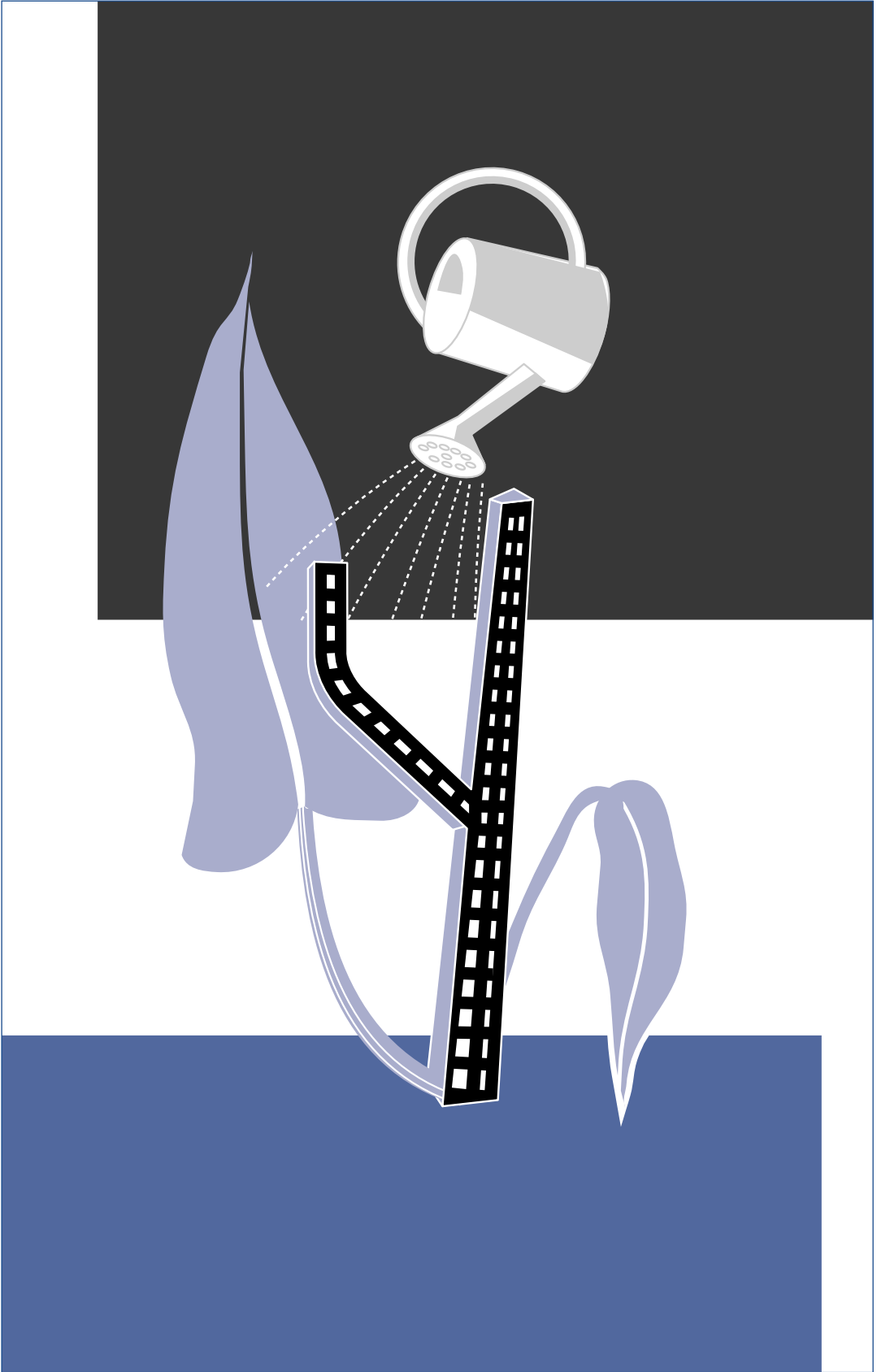
Prism

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Arthur D Little

Back to Basics



Bringing Corporate Responsibility Down to Earth

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In a globalized world companies must still operate on a local basis as external stakeholders are becoming more vocal in their demands for information on business activities aside from financial performance – particularly social and environmental responsibilities. How can large corporations set up reliable performance measures at a project level? Keeble, Eagar, and Mühlhäuser describe the method they have developed and describe how to go about it.

The role of companies in meeting society's objectives for sustainable development (integrating and balancing short-term and long-term economic, environmental, and social performance) is changing rapidly. Companies are now being expected to take on new responsibilities that have previously been considered to be outside their boundaries. Accordingly, lenders, investors, customers, suppliers, regulators and non-governmental organisations (NGOs) are becoming more vocal in their demands for information on business activities aside from financial performance. New laws on corporate governance and transparency with respect to social and environmental risks are already having significant effect in France and other EU countries. For these reasons the concept of "corporate responsibility" has come very much to the fore in major corporations.

Corporate responsibility (CR) has been defined as the means by which companies understand and act on the expectations of their stakeholders and fulfil the promises and commitments they have made to them.

The last ten years has seen a rapid increase in the number of companies reporting on their performance across many aspects of corporate responsibility. Generally the focus of this reporting has been performance at a corporate level. Certainly, much has been done to establish the business case for corporate responsibility at this level, particularly in the context of sustainable development¹, and many companies have already embraced the concept as part of their business strategy.

But whilst it may be possible, given some modest investment in systems for data retrieval and verification, to produce an attractive corporate responsibility report, this is of course only the beginning of the story. Most leading companies realise that without some integration of corpo-

¹ Examples are Chilvers and Keeble (2003), Hedstrom (2000), Sustainability (2000), Roberts et al. (2001), Kemp (2001), Holliday etc. (2002), Garz, Volk and Gilles (2002), Webley and More (2003).

rate responsibility principles and practices into their everyday operational systems and culture, they are letting themselves become a hostage to fortune. Trumpeting a set of principles and then not living up to them is potentially far more damaging to company reputation than not declaring the principles in the first place.

One of the main challenges facing large corporations wishing to integrate corporate responsibility into their organisations is how to set up reliable performance measures at an operational or project level. These measures will need to reflect corporate objectives, and will need to be suitable for translating back up to the corporate level through sometimes complex organisational structures with different business streams and functional divisions.

Until now, there has been little effort to understand or quantify what corporate responsibility really means at a project level. There should also be a clear articulation of the benefits in order to win support throughout the organisation. Whilst measurement may not be the only thing companies need to worry about – for example winning the battle to influence behaviour through inculcating the right values and culture is also crucial – effective measurement is certainly a prerequisite if corporate responsibility is something you want to manage effectively, rather than just report on.

So, how can you articulate the benefits of integrating corporate responsibility at the level of individual projects, as opposed to the whole corporation? And having established the benefits, how do you actually go about measuring corporate responsibility at the project level?

The answer is to develop and implement some practical tools that can be easily applied by project managers.

What are the benefits of measuring corporate responsibility at a project level?

Most major asset investment projects have some impact on the population and the environment outside the company. At its simplest, the building of a small factory or office will typically have an impact on the local communi-

ty in terms of, for example, employment and environmental impact. For global corporations investing in major production or infrastructure projects internationally, the impacts can be extremely far reaching. For example studies for the new Nanhai Petrochemicals Project to be located

in South China had to consider carefully the future of thousands of villagers as well as significant environmental risks – just analysing the impacts required literally years of study.

But understanding the impact need not just be an unavoidable cost burden on the project. From our work with companies in this area we have seen numerous examples where economic and broader business benefits have been enjoyed as a result. We find it helpful to analyse and characterise benefits in terms of four ‘levers’ – ways in which companies can derive business value through the integration of corporate responsibility into their operations (Exhibit 1):

Exhibit 1 Benefits of Corporate Responsibility at a Project Level	
Levers	Operational benefits
Cost leverage Maximising cost savings through environmental improvement	<ul style="list-style-type: none"> • Avoid disruptions and delays • Reduce cost of compliance • Reduce dependency and usage of raw materials • Less waste • Reduce insurance premiums • Reduce energy usage • Operational efficiency improvements
Risk reduction Focusing on management of long-term as well as short-term risks	<ul style="list-style-type: none"> • Prevent show stoppers • Avoid prosecution and penalties • Reduce customer and regulatory retaliation • Prevent supply chain disruption • Improved business risk management
Options creation Creating new methods of operation and new opportunities through penetrating untapped markets, and understanding and appealing to new stakeholder values	<ul style="list-style-type: none"> • Competitive advantage • Develop new methods of operation and new ways of working • Enhance access to new market opportunities by growing stakeholder trust • Pre-empt/shape regulation • Raise cost of entry for competitors
Stakeholder preference Increasing stakeholder preference through building stronger stakeholder relationships	<ul style="list-style-type: none"> • Assure licence to operate • Maintain and build relationships with stakeholders • Attract best supply chain and business partners • Attract resources, people and investment • Employee retention • Enhance employee morale and motivation • Enhance reputation • Regulatory approvals

- **Cost Leverage:** Maximising cost savings through environmental improvements such as waste reduction, raw materials efficiency and energy usage.
- **Risk Reduction:** Managing long-term risks, anticipating disruptions and interruptions.
- **Option Creation:** Creating new methods of operation and opportunities for commercial advantage, for example by understanding and appealing to new stakeholder values and through influencing regulation.
- **Stakeholder Preference:** Increasing stakeholder preference and enhancing reputation through building stronger stakeholder relationships.

Companies can consider whether their project portfolios are really capitalising on corporate responsibility issues by examining how well each of these four key levers are being utilised.

Examples of successes among companies include:

Cost leverage

In the pharmaceutical industry time-to-market is a critical factor. As a result, a global healthcare company needed to develop a fast-track approach to the design and construction of production facilities. This involved the use of pre-assembled modules that are not necessarily the most resource-efficient. A new procedure was introduced in 2002 to ensure environmentally sound project design in construction, extension and conversion of production plants. The procedure was tested on a new plant in Denmark, resulting in energy and water-saving measures in the design of up to 45 percent. The extra cost was less than one percent of the total investment with a payback of just over a year. The programme reduced operating costs by \$1million, making it an attractive return on investment².

Risk reduction

A manufacturing company was promoting its active involvement in environment and social responsibility through its industry association. But the industry association came under fire from a respected NGO over its lobbying position on trade policies. The company managed to avert damage to its reputation by challenging the industry association to apply a better balance to its policies.

Options creation

A leading US technology solutions company has established locally based projects to help underserved communities benefit from digital technologies in a number of emerging economies. Although the company has been selling its products in these economies for some time, only 10 percent of the global population can afford their products. The objective of each project is to open up the market to the poor whilst driving economic and social development, improving opportunities for citizens and inventing new solutions that will increase revenues for the company's current lines of business. A number of

² Novo Nordisk (2002)

projects have been established and are delivering tangible business opportunities whilst meeting social needs.

Stakeholder preference

A multinational plastics company based in the Far East wanted to expand a facility in Texas, USA. The compliance history for the facility had been marred by equipment design and other problems resulting in citations from both state and federal government agencies. The environmental reputation of the facility perceived by the public also gave rise to concern by neighbouring communities. As a result of these concerns and the prominent actions of a local fisherwoman, the company signed an unprecedented agreement to allow extensive community participation to oversee the environmental performance of the facility. The agreement led to the plant adopting a policy of zero emissions in its expansion. The result of this policy was that the expansion went ahead with no additional discharges to the environment. Violations fell to zero in four years, reportable releases fell 60 percent and injury rates fell by 80 percent between 1993 and 1997. In addition, the agreement was received favourably by federal, state and local governments and employee satisfaction rose, since many lived in the locality.³

At the project or operational level companies have the most direct interface with local communities and other stakeholders. For this reason, failure to exercise the principles of corporate responsibility at a project level can have a significant impact, not only on society and the environment, but also the business itself.

³ Blackburn & Bailey (1999)

How can corporate responsibility be measured at a project level?

Identifying and managing corporate responsibility within projects can be challenging, particularly where there is uncertainty over what the precise responsibilities might be. The following case example from a European company implementing an offshore oil project illustrates a practical methodology that was found to be practical and effective.

The Problem

The company needed a practical tool that would enable project managers to consider their corporate responsibilities when planning and implementing capital projects. The tool had to fit in with existing business processes for project planning and approval. By increasing awareness of these issues, and by using the tool, the company wanted to ensure that projects were planned and implemented in a responsible manner.

The Approach

The first challenge was to define clearly what “working in a responsible manner” meant in the context of an offshore oil project. Through discussion and consultation the following definition was developed:

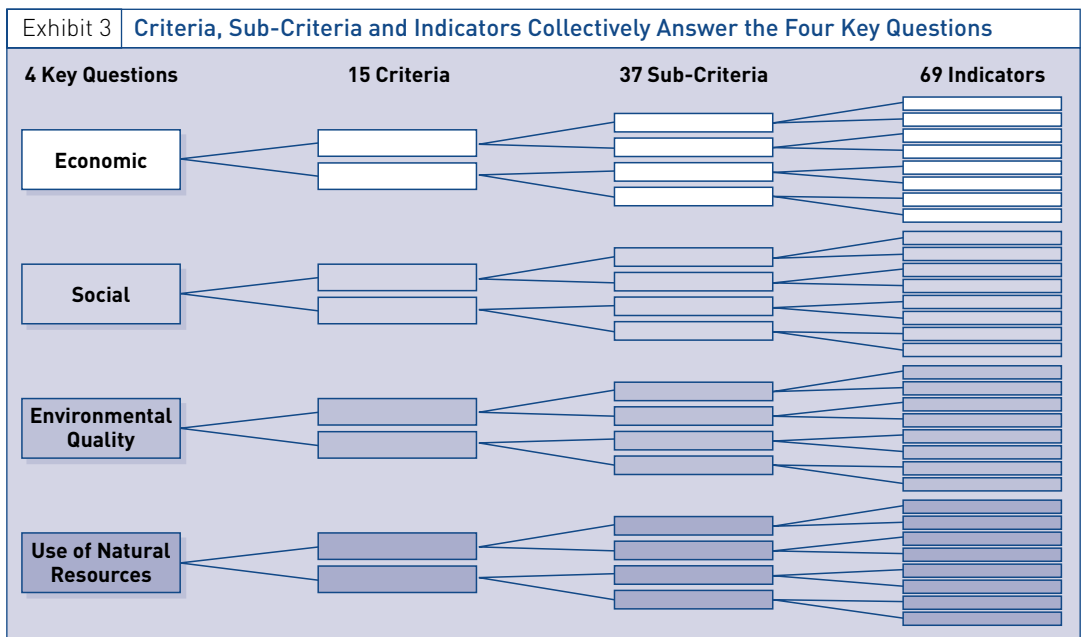
Working in a responsible manner means:

- Generating prosperity
- Enhancing affected economies
- Operating in a socially responsible manner
- Benefiting affected communities in a fair and equitable way
- No long-term environmental damage
- Enhancing natural capital

Based on this definition, four key questions were synthesized, relating to the impact of economic, social and environmental issues as well as the use of resources. (Exhibit 2). These questions are applicable for virtually any project.

Exhibit 2	Four Questions to Ask of Your Project Activity
	<p>ECONOMIC Will the project generate prosperity and enhance the affected economies?</p>
	<p>SOCIAL Will the project be implemented in a socially responsible manner and benefit the affected communities in a fair and equitable way?</p>
	<p>ENVIRONMENTAL QUALITY Will the project cause long-term damage to the environment?</p>
	<p>USE OF NATURAL RESOURCES Will the project protect and enhance natural capital?</p>

The next stage was to generate a comprehensive set of relevant key corporate responsibility issues through consultation with internal and external stakeholders. A set of 69 indicators was developed. These were grouped into 37 sub-criteria and further into 15 criteria headings .



An example of one of the 15 criteria is ‘Employment conditions and staff welfare’. This is divided into a number of sub-criteria including ‘Conditions of employment’, ‘Job security’, ‘Training and development’ and ‘Safety’. To enable each of these to be assessed effectively, indicators

for each sub-criterion were generated. For example, the sub-criterion ‘Job security’ is divided into three indicators:

- The average duration of employment
- Staff without permanent contracts
- The change in local unemployment

All aspects of the project can be scored on a scale of one to five, where one equals poor corporate responsibility performance and five equals strong performance. The scores are aggregated and displayed on a single summary table (Exhibit 4) and, crucially, all numerical scores are supported by a short sentence describing the main reasons behind the score. Using this combination of scoring and succinct descriptive text, a short but substantive report can be developed to describe the extent to which a project is addressing its corporate responsibilities.

Exhibit 4 Summary Table which Shows Corporate Responsibility Performance

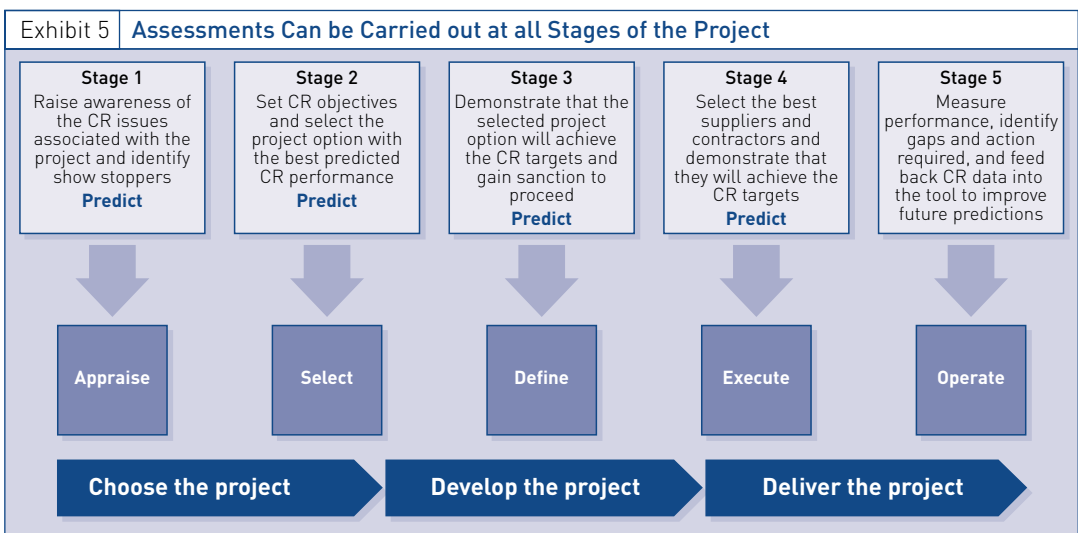
Economic		Social		Environment		Resources	
Will the project generate prosperity and enhance the affected economies?		Will the project be implemented in a socially responsible manner and benefit the affected communities equitably?		Will the project cause long-term damage to the environment?		Will the project protect and enhance natural capital?	
Governance Alignment with policies Economic Investment Jobs Taxes Support local economy Financial Company profitability Suppliers profitability Innovation Supports innovation Risk Manages risk	Governance Alignment with policies Social infrastructure Local demographics Local education Local health Public safety & security Uphold human rights Protect local culture Protect local culture Stakeholders engaged Employment Employment conditions Job security Training & development Safety Risk Manages risk	Governance Alignment with policies Emissions Emissions to air Emissions to water Waste Hazardous materials Nuisance Risk Manages risk	Governance Alignment with policies Natural resources Recovery factor Energy Materials Water Biodiversity Land and seabed Risk Manages risk				

Whilst this overview is a simple and powerful way of illustrating corporate responsibility performance for an entire project, especially at the stage of concept evaluation or options study, there are other issues to consider in order to manage corporate responsibility effectively through the project life cycle. A typical offshore oil project is divided into a number of phases from exploration, reservoir engi-

neering and field engineering through to project conception, design, construction, operation and decommissioning. Project activities are typically performed by many different organisations along the supply chain, and often result in a very wide range of direct and indirect environmental, social and economic impacts.

This issue is managed using a Project Assessment Matrix (PAM). The PAM is a matrix that measures how each activity in the project cycle from design to decommissioning is aligned with the principles of sustainable development. Using the matrix a systematic assessment can be made of the direct and indirect project impacts down to the first tier of main contractors and suppliers. Scores are recorded for specific project activities with the PAM enabling transparent aggregation of these scores into the Summary Scoring Page.

A key benefit of the PAM tool is that it can be used several times throughout the project life cycle to assess impacts, inform decision-making and track progress.



At the outset the PAM tool can be applied rapidly, in a 5-hour workshop, to raise awareness within the senior project team and to identify critical and significant impacts. As the project becomes better defined, the tool can assist the team in setting corporate responsibility objectives and selecting between project options. Once project options

have been selected, taking corporate responsibility considerations into account, the tool can help to identify the best suppliers and contractors and demonstrate that the project will meet the corporate responsibility objectives. Finally, the tool can be used to measure performance and impacts during construction and operation, thereby providing feedback to project managers on how the project has addressed its corporate responsibilities.

At a project level, this approach has a number of benefits. For example, it can be easily integrated into the project planning process. Moreover, it is predictive and thus helps with decision-making before any risks are taken. It also involves key project staff and progressively involves project partners, staff and other stakeholders. It is dynamic and flexible and is not prescriptive with respect to the kinds of indicators that might be used, as every project will have different impacts. Finally, it can be very simple and fast to use in the planning phase, thereby raising senior awareness of these issues early in the project life cycle.

Insights for the Executive: Key Lessons

Arthur D. Little's experience points to five key lessons for companies seeking to bring corporate responsibility down to a project level.

1. Use a practical, balanced set of indicators to translate corporate responsibility principles into measurable parameters at the project level. Make sure that these link directly and transparently to your corporate policies.
2. Encourage debate across the organisation on what the best means of measurement might be. But don't let this debate stall progress; once you have a good set of balanced measures, concentrate on developing the review processes that will put them to use in delivering results
3. Involve external stakeholders in developing this process, and ensure that line managers who are accountable for delivery understand how they can achieve results through their own decision-making.

4. Reinforce the importance of stakeholder awareness and communication through the project and engineering management line organisation. Convince engineers that people skills, and the ability to communicate effectively with the world outside the plant or factory, are also part of their core skill-set. They are not just the domain of Corporate Communications.
5. Use recognised standards for measurement and reporting as reference points where this makes sense. But realise that it is important that the organisation goes through the development of indicators from first principles, so that there is a feeling of ownership over the result, and that the result truly reflects the values and business environment of the company.

Measurement of performance at different levels within the organisation will inform a diverse range of stakeholders as to how the organisation is performing. Investors in the business can make more informed judgements about governance and risk management within the business. Employees can make more informed judgements about how different parts of the organisation are tackling social and environmental issues and communities. And governments can understand more easily the impact and benefit of specific project related activities of the business.

As corporations increasingly struggle to regain and retain society's trust and confidence, bringing corporate responsibility down to earth may well be your most important priority.

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