CHAPTER 14

Corporate Philosophy – Seeking Harmony between People, Society and the Global Environment and Creating a Prosperous Society through Making Automobiles

Yoshio Shirai

Ever since the company was founded in 1937, Toyota has continuously strived to contribute to the sustainable development of society and the earth by manufacturing and providing high-quality, innovative products and services.

Through such continuous efforts, Toyota has established its own management philosophy, values and methods, which have been passed down from generation to generation throughout the company. Toyota has summarised this management philosophy in what is known as the 'Guiding Principles at Toyota' (originally

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issued in 1992, revised in 1997), reflecting its idea of what kind of company Toyota would like to be. The Guiding Principles at Toyota were created in the expectation that Toyota would understand and share its fundamental management principles, contributing to society by referring to these principles.

Toyota also expressed its values and methods in writing, in the 'Toyota Way' (issued in 2001). These must be shared globally within the Toyota group to implement the Guiding Principles at Toyota and the company is making efforts to pass them on to future generations.

Recently, as business operations have become more global, society's expectations of a company's contribution towards sustainable development have increased and the scope of such expectations has expanded. Toyota has long engaged in business with the idea of corporate social responsibility in mind, and it has used internal working groups and other bodies to investigate means of responding to societal demands in depth. Toyota strongly believes that by putting the spirit of the Guiding Principles at Toyota into practice, the company is fulfilling society's expectations of Toyota. In January 2005, it prepared and distributed an explanation paper called 'Contribution towards Sustainable Development', which interprets the Guiding Principles at Toyota.

This manual, prepared from the standpoint of how Toyota can contribute to sustainable development, is intended to convey the company's basic policies concerning social responsibility to external stakeholders and to promote a clear and precise understanding of these among all employees, including employees of consolidated subsidiaries and business partners. Toyota also expects its business partners to support this initiative and act in accordance with it.

The resulting Guiding Principles have been embedded in Toyota's day-to-day operations and are presented in Figure 14.1.

Guiding Principles at Toyota
(Adopted January 1992, revised April 1997)

1. Honour the language and spirit of the law of every nation and undertake open and fair corporate activities to be a good corporate citizen of the world.
2. Respect the culture and customs of every nation and contribute to economic and social development through corporate activities in the communities.
3. Dedicate ourselves to providing clean and safe products and to enhancing the quality of life everywhere through all our activities.
4. Create and develop advanced technologies and provide outstanding products and services that fulfill the needs of customers worldwide.
5. Foster a corporate culture that enhances individual creativity and teamwork value, while honouring mutual trust and respect between labour and management.
6. Pursue growth in harmony with the global community through innovative management.
7. Work with business partners in research and creation to achieve stable, long-term growth and mutual benefits, while keeping ourselves open to new partnerships.

Figure 14.1 Guiding Principles at Toyota

TOYOTA'S PRESENT CONTRIBUTION TOWARDS SUSTAINABLE DEVELOPMENT AND IMPLEMENTATION OF GUIDING PRINCIPLES

We, TOYOTA MOTOR CORPORATION and our subsidiaries, take initiatives to contribute to the harmonious and sustainable development of society and the earth, based on our Guiding Principles.

We comply with local, national and international laws and regulations as well as the spirit thereof and conduct our business operations with honesty and integrity.

In order to contribute to sustainable development, we believe that it is particularly important for management to interact with its stakeholders, and we will endeavour to build and maintain sound relationships with our stakeholders through open and fair communication.

Customers

- Based on our philosophy of 'Customer First', we develop and provide innovative, safe and outstanding high-quality products and services that meet a wide variety of customers' needs to enrich the lives of people around the world. (Guiding Principles 3 and 4)

- We will endeavour to protect the personal information of customers in accordance with the letter and spirit of each country's privacy laws. (Guiding Principle 1)

Employees

- We respect our employees and believe that the success of our business is driven by each individual's creativity and good teamwork. We stimulate personal growth for our employees. (Guiding Principle 5)
- We support equal employment opportunities, diversity and inclusion for our employees and do not discriminate against them. (Guiding Principle 5)
- We strive to provide fair working conditions and to maintain a safe and healthy working environment for all our employees. (Guiding Principle 5)
- We respect and honour the human rights of people involved in our business and, in particular, do not use or tolerate any form of forced or child labour. (Guiding Principle 5)
- Through communication and dialogue with our employees, we build and share the value 'Mutual Trust and Mutual Responsibility' and work together for the success of our employees and the company. (Guiding Principle 5)
- Management of each company takes leadership in fostering a corporate culture and implementing policies that promote ethical behaviour. (Guiding Principles 1 and 5)

Business partners

- We respect our business partners such as suppliers and dealers and work with them through long-term relationships to ensure mutual growth based on mutual trust. (Guiding Principle 7)
- Whenever we seek a new business partner, we are open to any and all candidates, regardless of nationality or size, and evaluate them based on their overall strengths. (Guiding Principle 7)
- We maintain fair and free competition in accordance with the letter and spirit of each country's competition laws. (Guiding Principles 1 and 7)

Shareholders

- We strive to enhance corporate value while achieving stable and long-term growth for the benefit of our shareholders. (Guiding Principle 6)
- We provide our shareholders and investors with timely and fair disclosure on our operating results and financial status. (Guiding Principles 1 and 6)

Global society/local communities

Environment

- We aim for growth in harmony with the environment throughout all areas of business activities. We strive to develop, establish and promote technologies enabling the environment and the economy to coexist harmoniously, while also seeking to build close and cooperative relationships with a broad spectrum of individuals and organisations involved in environmental preservation. (Guiding Principle 3)

Community

- We implement our philosophy of 'respect for people' by honouring the culture, customs, history and laws of each country. (Guiding Principle 2)
- We constantly search for safer, cleaner and better technology to develop products that satisfy society's evolving needs for sustainable mobility. (Guiding Principles 3 and 4)
- We do not tolerate bribery of or by any business partner, government agency or public authority and maintain honest and fair relationships with government agencies and public authorities. (Guiding Principle 1)

Philanthropy

- Wherever we do business, we actively promote, engage, both individually and with partners, in philanthropic activities that help strengthen communities and contribute to the enrichment of society. (Guiding Principle 2)

ENVIRONMENTAL MANAGEMENT

To ensure that its products are accepted and well received around the world, Toyota has positioned the environment as a priority management issue and seeks to become a leading company that contributes to the development of a recycling-based society through innovative environmental technologies. In order to achieve this, Toyota has created environmental management systems in all areas and in all regions around the world, and constantly promotes action to this end, with goals set at the highest levels in each country and region.

Basic concepts with regard to the environment

Principles and policies

The Toyota Earth Charter, adopted in 1992 and revised in 2000 (see Figure 14.2), is based on the Guiding Principles at Toyota adopted in 1992 (revised in 1997) and embodies our comprehensive approach to global environmental issues. Based on this Charter, Toyota has made environmental responses a top management priority.

Environmental Action Plan

The Toyota Environmental Action Plan is a medium- to long-term plan that summarises specific activities and goals in order to promote company-wide environmental preservation activities in accordance with the Toyota Earth Charter.

The Third Toyota Environmental Action Plan describes specific action plans for the five years from FY2001 to FY2005. Based on this plan, Toyota also established an Annual Environmental Action Policy in FY2004, to develop and expand environmental preservation activities.

Furthermore, in FY2004 Toyota drew up the Fourth Toyota Environmental Action Plan to run from FY2006 to FY2010, which was made public in May 2005.

Toyota Earth Charter

I. Basic Policy

1. **Contribution toward a prosperous 21st century society**
   Contribute toward a prosperous 21st century society.
   Aim for growth that is in harmony with the environment, and set as a challenge the achievement of zero emissions throughout all areas of business activities.

2. **Pursuit of environmental technologies**
   Pursue all possible environmental technologies, developing and establishing new technologies to enable the environment and economy to coexist harmoniously.

3. **Voluntary actions**
   Develop a voluntary improvement plan, based on thorough preventive measures and compliance with laws, that addresses environmental issues on the global, national, and regional level, and promotes continuous implementation.

4. **Working in cooperation with society**
   Build close and cooperative relationships with a wide spectrum of individuals and organisations involved in environmental preservation including governments, local municipalities, related companies and industries.

II. Action Guidelines

1. **Always be concerned about the environment**
   Take on the challenge of achieving zero emissions at all stages, i.e., production, utilisation, and disposal.
   (1) Develop and provide products with top-level environmental performance.
   (2) Pursue production activities that do not generate waste.
   (3) Implement thorough preventive measures.
   (4) Promote businesses that contribute to environmental improvement.

2. **Business partners are partners in creating a better environment**
   Cooperate with associated companies.

3. **As a member of society**
   Participate actively in social actions.
   (1) Participate in the creation of a recycling-based society.
   (2) Support government environmental policies.
   (3) Contribute to non-profit activities.

4. **Toward better understanding**
   Actively disclose information and promote environmental awareness.

III. Organisation in Charge

Promotion by the Toyota Environment Committee
which consists of top management (chaired by the President)

Figure 14.2 Toyota Earth Charter

To ensure that the goals of the Third Toyota Environmental Action Plan, covering the period from FY2001 to FY2005, are achieved, Toyota conducted a periodic review of the progress in FY2004. Goals were achieved on time or ahead of schedule in almost all areas. Some measures are being accelerated through the end of FY2005; these include research and proposals on transportation systems and development of air conditioning systems with new refrigerants to help prevent global warming. Toyota plans to continue to take action by including these points in the Fourth Toyota Environmental Action Plan.

IMPLEMENTATION STRUCTURE

Three committees were established under the Toyota Environment Committee, which is chaired by the president and meets twice a year to address issues and response policies in each area. The Environmental Affairs Division functions as a secretariat for committee operation. All related departments cooperate to promote company-wide environmental action.

At a Toyota Environment Committee meeting held in FY2004, CO_2 emissions and other issues were discussed, along with the Fourth Toyota Environmental Action Plan.

The organisational framework (Figure 14.3) shows the interrelation between the Toyota Environment Committee and other committees such as the Production Environment Committee or the Recycling Committee.

In FY2000, Toyota introduced consolidated environmental management, which unites Japanese and overseas consolidated companies in concerted environmental action. In addition, Environment Committees were established in Europe in FY2003 and North America in FY2004 to reinforce local environmental activities. In the spring of 2005, full-scale environmental initiatives, overseen by the senior managing director in charge of Asia Operations, were introduced in the Asia region, and Toyota

- **Toyota Environment Committee**

Chairman: President Katsuaki Watanabe
Established in 1992
Directs important environmental programs and promotes environmental preservation company-wide

- **Environmental Product Design Assessment Committee**

Chairman: Managing Officer Tatehito Ueda
Established in 1973
Studies key environmental preservation issues related to development and design of Toyota vehicles

- **Production Environment Committee**

Chairman: Senior Managing Director Atsushi Niimi
Vice Chairman: Senior Managing Director Shoji Ikawa
Established in 1963
Discusses and determines important issues for environmental preservation in procurement, production and logistics groups, and promotes comprehensive environmental protection measures
→ All-Toyota Production Environment Conference
All-Toyota Production Environment Meeting
→ Regional Production Environment Conference

- **Recycling Committee**

Chairman: Senior Managing Director Yoshio Shirai
Vice Chairman: Managing Director Masamoto Maekawa
Established in 1990
Studies easy-to-recycle designs of vehicles, development of recycling/recovery technologies and collection methods

- **Environmental Affairs Division**

Secretariat of Environmental Committees
Established in 1998
Manages action policy and goals. Drafts environmental action plan and annual company-wide environmental policy

Executives in charge of Environmental Affairs Division Environment Group:
Executive Vice President Takeshi Uchiyamada
Senior Managing Director Yoshio Shirai

Directors:
Managing Officer Tatehito Ueda
Managing Officer Tetsuo Agata
Managing Officer Masayuki Nakai

Figure 14.3 Organisation Framework (positions and areas of responsibility as of March 2006)

is currently working to further strengthen environmental action there. In the future, Toyota will reinforce local environmental management in South America and China, thus promoting environmental management on a global basis.

CONCLUSION

Drafting of the Fourth Toyota Environmental Action Plan on the basis of Toyota's Guiding Principles and environmental management approach

Within Global Vision 2010, Toyota describes what society is expected to be like from 2020 to around 2030 with the 'arrival of a revitalised, recycling-based society'. The Fourth Toyota Environmental Action Plan is a clear statement of the activities Toyota must undertake in order to attain the corporate image it is striving to achieve – to become a leader and driving force in global regeneration by implementing the most advanced environmental technologies. In adopting the plan, Toyota reconfirmed environmental issues that are expected to be on the agenda in the period from 2020 to 2030, and addressed four main topics:

1. Energy/global warming
2. Recycling of resources
3. Substances of concern
4. Atmospheric quality

For each of these four topics, points for action, specific measures and goals have been adopted in Toyota's areas of activity, including development and design, procurement and production, logistics, sales and marketing and recycling. Toyota will also continue to implement and strengthen its environmental management.

Key points of the plan and global implementation

The Fourth Toyota Environmental Action Plan seeks to achieve a balance between Toyota's growth and harmony with society and to contribute to the development of a sustainable society. The following four main points were incorporated into the plan to achieve these objectives.

1. **CO_2 emissions management** – Create medium- to long-term scenarios and start management of CO_2 emissions volumes on a global scale.
2. **Reinforcement of environmental management by business partners** – Reinforce environmental management by business partners globally (consolidated subsidiaries, suppliers, dealers and overseas distributors).
3. **Elimination of substances of concern** – Eliminate substances of concern (lead, mercury, cadmium and hexavalent chromium) globally.
4. **Cooperation with society** – Contribute to the development of a recycling-based society.

Since FY2000, approximately 600 companies around the world subject to consolidated environmental management have jointly adopted the Toyota Earth Charter with TMC. Each company participates in consolidated environmental management including the drafting and implementation of environmental action plans. Based on the Fourth Toyota Environmental Action Plan, each company will draft and implement its next five-year environmental action plan itself in order to further accelerate consolidated environmental management.

CHAPTER 15

The *Kyosei* Philosophy and CSR

Fujio Mitarai

Recently, whenever I meet with journalists, I find that I'm getting asked more and more about the steps that Canon is taking with regard to CSR.

To be honest, I was somewhat puzzled when I first encountered the term 'CSR'. In Japan, whenever something is introduced as an acronym of a concept expressed in English, we tend to view it as an entirely new and novel idea. The moment we translate the term into Japanese, however, we soon realise that, more often than not, it is a concept that we have long been familiar with. This, too, is the case with the term 'corporate social responsibility'.

In my opinion, it is only natural for a corporation to fulfil its social responsibilities. Companies are organs of society and, as such, have an obligation to participate actively in society through making contributions to local communities, and providing support for cultural and humanitarian assistance activities. Furthermore, to ensure that CSR does not merely fade away as simply another

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trendy corporate fad, I believe that it is essential that this concept take root with each individual employee. It is with this objective in mind that Canon educates its employees and managers with the aim of fostering a natural consciousness of compliance and a desire to contribute to society as a responsible corporate citizen.

I believe that there are four essential objectives that every corporation must fulfil in order to satisfy its social responsibilities. The first of these is to provide employment and a livelihood for the company's workers. The second is to return profit to the investors who provide the means for the company to carry out its operations. The third objective is to contribute to society. And the fourth is to generate sufficient capital to fund future investment to realise sustainable growth. If a company is not able to satisfy these four objectives, then it has no value as a business enterprise. This is something that I am constantly emphasising to Canon employees.

Over the past few years, CSR has been attracting an increasing amount of attention, as evidenced in the growing number of corporate CSR management rankings appearing in newspapers and other news media. I'm sure that this trend has been keeping a large number of journalists quite busy these days. In 2004, Canon was honoured with a seventh place in the Japan edition of *Newsweek* magazine in the publication's 'Newsweek Global 500' ranking, which rated the world's leading companies based on a combination of business performance and corporate social responsibility. Among Japanese companies, Canon finished in first place. Also, in 2005, *Nikkei Business*, Japan's number one weekly business magazine, awarded Canon first place in its 'CSR Best 100 Company Ranking', which evaluated companies in three areas: CSR activities and reporting, external evaluation and financial performance.

Despite the high acclaim that we have received in the area of CSR, it may come as somewhat of a surprise to hear that Canon does not have a dedicated division that is responsible for the company's CSR activities. What's more, none of our management policies incorporate CSR as a point of focus. Yet, through our day-to-day corporate activities, we continue to fulfil our social responsibilities. I believe that we can credit this to Canon's corporate spirit, which has been alive and well since the company's founding nearly 70 years ago.

Canon was founded in 1937 and one of the themes that has remained constant throughout the company's history is a respect for mankind. In accordance with this theme, Takeshi Mitarai, Canon's first president, introduced three guiding principles during the 1940s aimed to promote the well-being and development of the company's employees while contributing to business growth. These three guiding principles, which are still firmly adhered to today, were: 'Health first', which stresses the importance of healthy and happy employees; 'Familism', to nurture a spirit of harmony between workers based on trust and understanding; and 'Meritocracy', to ensure that employees are evaluated fairly for the abilities and skills that they bring to their jobs. Although such thinking may not sound particularly innovative by today's standards, in 1940s Japan it was virtually unheard of to introduce such ideas in the workplace.

In 1988, the year following the 50th anniversary of the company's founding, Ryuzaburo Kaku, Canon's president at the time, expanded the scope of these concepts beyond the boundaries of the company, outlining a philosophy that could be applied on a global scale. We expressed this philosophy as 'the achievement of corporate growth and development with the aim of contributing to global prosperity and the well-being of humankind'. This is the idea behind Canon's corporate philosophy of *kyosei*.

At Canon, we define *kyosei* as 'living and working together for the common good'. And through *kyosei*, we hope to realise the ideal of 'all people, regardless of race, religion or culture, harmoniously living and working together for many years to come'. Put succinctly, *kyosei* aims for the creation of a sustainable society. It includes the idea that the continued existence and further growth of the company can be achieved through cooperation with and contributions to humankind worldwide.

Consequently, when we talk about CSR today, many of the various concepts that we are referring to were introduced at Canon some 17 years ago, when we first announced our *kyosei* corporate philosophy. The primary reason why any corporation needs to fulfil its corporate social responsibilities is to enable it to achieve sustainable growth. The company that currently audits Canon's Sustainability Report, SustainAbility Limited, based in the United Kingdom, supports the concept of a 'triple bottom line'. The thinking behind this concept is that the term 'bottom line', as a gauge of a company's business performance, should not be limited to just the economic implications of that company's performance. Instead, the term should also be applied to the company's achievements with regard to the environment and society. It is unacceptable for corporations to be economically profitable at the expense of the environment. Also, it goes without saying that a company must not profit from society without offering something in return in the form of meaningful contribution. Without making such efforts, there is no assurance that a company will be capable of maintaining sustainable growth and, as such, risks being viewed by the investment community as carrying high risk.

Furthermore, I believe that each facet of the triple bottom line concept must be given equal importance. As such, these three components must be addressed simultaneously, with companies targeting sound growth while giving full consideration to supporting a sustainable society, which includes focusing on and pursuing solutions to environmental concerns.

For example, at Canon, we do not view our environmental assurance activities as being a cost burden. Rather, we believe that these efforts, which are aimed at maximising the productivity of the resources that we use, are directly tied to the profits that the company generates. Our goal is to align the Canon Group's environmental assurance activities with its economic activities.

We have launched a variety of environmental businesses to share Canon's newest technologies and know-how with society. Canon has also taken the reins into its own hands in respect of standardisation of green procurement and other industry initiatives as we look beyond our own company and strive to reduce the environmental burden on a global scale.

It goes without saying that the ideal of *kyosei*, which Canon continues to pursue, cannot be realised through a company's internal efforts alone. Companies must also strive to achieve cooperative relationships with their various stakeholders, relationships based on mutual trust and understanding. Canon continues to build close relationships with its stakeholders by providing a range of opportunities for open communication. I believe that those companies that fail to realise *kyosei* with their stakeholders will gradually be weeded out.

While participating in social contribution activities is the responsibility of a 'good corporate citizen', it can also serve as a means to improve corporate value and deepen public trust in a company. In 1996, in accordance with our *kyosei* philosophy, Canon announced the Excellent Global Corporation Plan, which embodies our goal of continuing to contribute to society through technological innovation while aiming to be a corporation worthy of admiration and respect worldwide. Over the 10 years since we launched this management plan, comprising two five-year phases thus far, we have promoted management reforms to fulfil our mission of becoming a truly Excellent Global Corporation. And we have watched as these efforts have paid off handsomely in terms of financial performance: our sales and profits have continued to grow and we are currently on track to realising our sixth straight year of record financial gains for the 2005 fiscal year. Additionally, we are eagerly looking forward to Phase III of the Excellent Global Corporation Plan, which begins in 2006. During this third five-year phase, we will pursue a course of sound growth while maintaining our current high-profit structure. Building on the solid trust that we have earned from our stakeholders, we aim to grow into a business group that possesses and makes effective use of the corporate values necessary for sustained development.

From a long-range perspective, the three components comprising the triple bottom line concept in no way conflict with a company's objectives for continued prosperity. Rather, all of these elements go hand in hand with each other. The various activities that we refer to today when we use the term CSR are, in fact, encompassed by the ideal behind our corporate philosophy known as *kyosei*. Accordingly, as we continue to pursue the achievement of *kyosei* in our business activities, we believe that we can fulfil all of our corporate social responsibilities.

CHAPTER 16

A Decade of Environmental and Sustainability Reporting at Credit Suisse Group

H.-U. Doerig[1]

Credit Suisse Group conducts an active, honest dialogue with its employees and the public on environmental and social issues. It provides information to stakeholders in a targeted manner, ensures its actions are transparent and encourages an understanding of different viewpoints. The Group is also involved in various bodies where it can use its expertise and experience to promote environmental protection and sustainable economic development.

CSG Sustainability Report 2001

[1] In cooperation with Dr. Bernd Schanzenbaecher.

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PROGRESS DRIVEN BY INTERNATIONAL DEVELOPMENTS

In order to safeguard their reputation as well as securing long-term business success, it is essential for global financial services providers to gain broad-based acceptance with a wide variety of stakeholders. At Credit Suisse Group conduct – towards clients, shareholders and employees, as well as society and the environment – is therefore founded on the company's comprehensive understanding of its responsibilities. In concrete terms, this means that Credit Suisse Group actively seeks to establish a dialogue with a broad range of stakeholder groups and engages them in discussions about topics that are as varied as the interests of these groups themselves.

Credit Suisse Group also plays an active role in a number of national and international bodies and networks in order to promote environmental and social progress at various levels. Here, the Group offers its experience and expertise and introduces its own perspective, while gaining new impetus for its own sustainability commitments. Credit Suisse Group considers the following international initiatives to have been the driving force behind the evolution of the concept of sustainability and sustainability reporting:

- **The Brundtland Report: the birth of the concept of sustainability**
  Although the concept of sustainability dates back to the forestry industry of the eighteenth century many in the corporate sector regard 1987 as the year in which the foundations for their subsequent sustainability commitments were laid. That was the year in which the UN World Commission on Environment and Development, chaired by the then Prime Minister of Norway, Gro Harlem Brundtland, published its report 'Our Common Future'. The Brundtland Report, as it became

known, is particularly important because it created a definition of sustainability that can be applied to many different areas of life.

According to the authors of the report, development is sustainable if it meets the needs of the present generation without compromising the ability of future generations to meet their own needs.

This differed from earlier definitions of sustainability by presenting a holistic approach to problems that had previously been viewed in isolation. The report states that the key to sustainable development is to overcome poverty in developing countries and to bring the material wealth of industrialised countries into harmony with nature. In terms of the future, the Commission was of the belief that global economic growth will have to occur within certain ecological limits and that the corporate sector will have an important part to play in this development.

The Brundtland Report remains as important as ever today. This is demonstrated, among other things, by the fact that many companies – including Credit Suisse Group – base their sustainability commitments on this holistic view of the economy, the environment and society, and have implemented this concept in their sustainability reporting systems since the publication of the report.

- **1992 Rio Conference: sustainability becomes an imperative**

The United Nations Conference on Environment and Development in Rio in 1992 represented a further milestone in sustainable development. The aim of this Earth Summit, which was attended by around 10 000 participants from 178 countries, was to transform the non-binding recommendations of the Brundtland Commission into politically and legally binding imperatives. Despite the many conflicting interests of those attending the summit, five declarations were agreed upon at the Rio Conference.

- **The Kyoto Protocol: commitments on global climate change**
  The agreements on climate change that had been made in Rio became binding under international law at the third Conference of Parties to the United Nations Framework Convention on Climate Change, which was held in Kyoto, Japan, in 1997. As the main producers of greenhouse gases, the industrialised nations, in particular, pledged to reduce their emissions to below 1990 levels by 2012.
- **Johannesburg 2002: spotlight on global rules for the corporate sector**
  A second Earth Summit took place in Johannesburg 10 years after the Rio Conference. The central theme of the summit was how the model for sustainable development could actually be put into practice in times of globalisation and rapid technological advances. As in the case of previous economic summits, there was an increasing focus on the responsibility of globally active companies as key players in sustainable development.

Credit Suisse Group signed up to a number of environmental and sustainability charters as a direct result of its involvement in various international bodies. In 1992, for example, the Group became one of the first signatories to the United Nations Environment Programme (UNEP) statement for financial institutions, drawn up at the Rio Conference. In 2000, it signed up to the UN Global Compact – an initiative under which it pledged to observe a number of principles relating to human rights, working conditions, environmental protection and the prevention of corruption. Credit Suisse Group's earlier involvement in the Intergovernmental Panel on Climate Change (IPCC) is a further example of its commitment to sustainability at an international level.

MILESTONES IN ENVIRONMENTAL AND SUSTAINABILITY REPORTING

The environmental and social aspects of banking – which is regarded as an essentially 'clean' industry – have only become a subject of broader discussion in recent years. However, Credit Suisse Group addressed these issues at an early stage. This is demonstrated, for example, by its creation of the post of environmental officer in 1989, as well as its efforts in the field of environmental and sustainability reporting. In fact, in 1995, the former Credit Suisse *(Schweizerische Kreditanstalt; SKA)* became one of the first banks in the world to publish an environmental performance evaluation focusing on the energy and material consumption of its internal operations, followed in 1996 by its first environmental report.

Furthermore, by the late 1990s, Credit Suisse Group had already recognised the importance of having a business policy that takes account of both the present and future needs of society, and published its first sustainability report in 2002. This report represented the next stage in the development of its earlier environmental reports and, for the first time, addressed social issues in addition to environmental aspects. Table 16.1 shows the development of Credit Suisse Group's environmental and sustainability reporting.

Between 1994 and 2000, reporting at Credit Suisse Group focused primarily on the status and further development of its environmental commitments, although the topic of sustainability was raised occasionally – especially in the second half of this phase. Environmental reporting was based on the Group-wide environmental policy, which defines the following basic approach to communication on environmental issues:

> Our bank is an environmentally-conscious company. We therefore conduct an open dialogue both inside the company and outside. Our environmental data are accessible. We cooperate actively with external environmental organisations. Meeting our ecological responsibilities forms part of our strategy to secure long-term earnings and sustainable corporate development.

During this first reporting phase, Credit Suisse Group published environmental reports every two years, in which it provided information about its environmental management system and its product and corporate ecology, as well as its dialogue with the general public. Eco-performance reports detailing its principal energy and material flows were published in alternate years to complement these environmental reports.

Table 16.1 Development of Credit Suisse Group's environmental and sustainability reporting

Year of publication	Report
1995	Eco-performance SKA Zurich, 1994
	Eco-performance CS Geneva, 1994
1996	CREDIT SUISSE (SKA) Environmental Report 1995/96
1998	Eco-performance Evaluation Switzerland 1996/97
1999	Environmental Report 1997/98
	MIB AG Energy and Materials Report 1998
2000	Eco-performance Report Switzerland 1998/99
	MIB AG Energy and Materials Report 1999
2001	Environmental Report 1999/2000
	MIB AG Energy and Materials Report 2000
2002	Sustainability Reporting 2001[1]
	MIB AG Energy and Materials Report 2001
	Credit Suisse First Boston Foundation Social Responsibility Report 2001
2003	Sustainability Reporting 2002
	MIB AG Energy and Materials Report 2002
2004	Sustainability Reporting 2003
	MIB AG Energy and Materials Report 2003
	Credit Suisse First Boston Foundation Social Responsibility Report 2003
2005	Sustainability Reporting 2004
	MIB AG Energy and Materials Report 2004

Note: [1] Since 2002, an additional document featuring sustainability indicators and key figures has also been published each year in PDF format on the Internet.

An important milestone on the path towards comprehensive sustainability reporting was the introduction of the Code of Conduct – setting out basic values that apply to all employees worldwide – in 1999. As a guideline for employee conduct, the Code states that Credit Suisse Group is committed to delivering superior value to its clients and shareholders, to being an employer of choice and to acting as a respected member of the community. The way in which Credit Suisse Group implements these objectives, the progress it has achieved towards attaining them and the challenges that remain have been documented in the Group's annual sustainability reporting since 2002.

Looking back, the quantum leap from eco-performance reports for selected locations in Switzerland to comprehensive, validated sustainability reporting was only possible because Credit Suisse Group had continuously and actively participated in the ongoing debate about environmental and social issues. Here the focus was on the opportunities created by a fair dialogue with an ever-increasing number of stakeholder groups. The challenges that this presented in terms of organisation and content – as well as in respect of specific target groups – are outlined below.

SUSTAINABILITY: EASIER SAID THAN DONE

The environmental management system as a basis for sustainability management

The continuing development of Credit Suisse Group's environmental and sustainability-related communication activities is due, in particular, to the early establishment and expansion of its environmental management system. This aimed to consolidate the specialist knowledge that already existed across its wide variety of businesses and locations, and to constantly advance the development of its environmental and sustainability management system. If an environmental management system is to be able to operate, it is essential that it is firmly established at all functional levels and is incorporated into the company's organisational structure.

In 1997, Credit Suisse Group became the first bank worldwide to implement an environmental management system certified according to ISO 14001. This system establishes a framework for the organisational structure, responsibilities, conduct, processes, procedures and requirements involved in implementing the Group's environmental policy and sets out the Group's commitment to continuously improving its environmental performance.

For bodies that closely monitor the environmental and social performance of the corporate sector, environmental management systems certified according to ISO 14001 provide a key indication that companies have a demonstrably high level of commitment to the environment – and that this commitment has been verified independently. The most recent re-certification of Credit Suisse Group's environmental management system in 2003, by the independent SGS International Certification Services AG, as well as the extension of its environmental standards to include its external partners and suppliers, and the integration of locations and organisational units outside Switzerland, provide important evidence that Credit Suisse Group is constantly pursuing efforts to enhance its environmental management system.

An increasingly broad topic: the many facets of sustainability

The topics covered by environmental and sustainability reporting must always be seen in the light of current public discussion. In the early 1980s, when the first finance companies were laying the foundations of their current environmental and sustainability commitments, issues such as ecology were beginning to enter the sphere of public consciousness. Former adherents to the creed of unlimited growth were still in shock following the first two oil crises. Moreover, people grew alarmed as they surveyed growing mountains of waste and saw forests dying as a result of pollution, while also being confronted with global warming.

As a result, companies also became increasingly aware of the need to recognise the direct environmental impact of their actions and to publish the corresponding information on corporate ecology. The former Credit Suisse therefore issued its first eco-performance report in 1995, providing details of energy, water and paper consumption, as well as data on the volume of waste produced and the environmental impact of business travel. Those in charge of the initiative focused particularly on energy consumption, which had by far the greatest direct impact on the environment and was also important in the context of the emerging problem of climate change. In addition to informing employees and raising their awareness of the issues concerned, the eco-performance report was particularly valuable as a management tool to record and quantify all relevant energy and material streams, pinpointing potential savings and enabling realistic targets to be formulated. Just one year later, Credit Suisse extended its reporting to cover the field of product ecology. In addition to the ecological risks initially targeted – such as those to be considered in the credit approval process – attention soon turned to the potential for 'green' products in asset management and investment banking.

At the end of the 1990s, the corporate sector was coming under increasing public pressure to accept responsibility for social issues and to satisfy the need for more comprehensive information. At this time, the focus of interest shifted to issues such as respect for human rights, the prevention of corruption and fairer international trade relations. Moreover, there was growing peer pressure – not to mention calls from non-governmental organisations – for companies to disclose relevant facts and figures.

It is also necessary to consider the fact that information circulates much more rapidly and easily nowadays, meaning that rumours and news about weaknesses and misconduct can soon develop into reputation-related risks, irrespective of whether or not they are true. This highlights how important it is for Credit Suisse Group to establish a dialogue with stakeholders at an early stage in order to promote mutual understanding and to identify the first signs of change.

This presents globally active financial services companies with a host of new issues to consider in respect of their environmental and social commitments. In addition to the environmental aspects referred to above, the key areas of focus at Credit Suisse Group are as shown in Table 16.2.

Parallel to its efforts to expand the content of its reporting, Credit Suisse Group also succeeded in continuously improving its methodology and in refining its environmental and sustainability indicators. These performance indicators are aimed, inter alia, at facilitating cross-comparisons and enabling industry standards for transparent reporting to be created. The below indicator systems

Table 16.2 Stakeholder groups and key areas of focus

Stakeholder group	Key area of focus
Employees	Training and further development Equal opportunities and diversity Employment conditions
Clients	Availability of and access to needs-based banking services Quality management, enhancement of client satisfaction Handling of complaints Delicate balance between privacy and the prevention of illegal transactions
Society	Economic importance of banks Sponsorship and support for cultural, sporting, social and charitable events and organisations Compliance with legislation, self-regulation Dialogue with political bodies and NGO representatives

are the core models for financial services companies. Credit Suisse Group has reported its performance according to these indicator systems in a separate online report each year since 2002:

- VfU corporate ecology performance indicators.
- EPI-Finance (environmental performance indicators for the financial industry) on environmental management and product ecology.
- SPI-Finance (social performance indicators for the financial industry) on conduct towards employees, suppliers and society, as well as the impact of products and services and commitment to the good of society.

It is interesting to note in this context that the content of the reporting has been expanded in accordance with the interests of internal as well as external target groups. Since the mid-1990s, there has been a growing realisation that good environmental management can ultimately be seen as an indication of good management in general, as demonstrated by the following examples:

- **Cutting costs**: the thoughtful use of resources not only protects the environment but also reduces energy, material and waste disposal costs.
- **More effective risk management**: by taking account of environmental and social issues in the credit approval process, it is possible to ensure an appropriate lending policy and suitable terms and conditions.
- **Exploitation of market opportunities**: sustainable investment funds and loans for groundbreaking projects are examples of how it is possible to enter attractive new markets by incorporating aspects of sustainability into new products.
- **Good image**: companies that fulfil their responsibilities towards the environment and society inspire greater confidence in their employees, clients, shareholders and other stakeholders, and are thus able to secure a better competitive position.

Addressing a broader target group

During the initial phase of the Group's environmental commitment, the authors of its reports were writing primarily for an employee audience – which remains one of its main target groups today. Specific information events, various staff publications and the Intranet are the most important platforms for internal dialogue. For example, the Intranet enables employees to find out about current environmental topics such as the launch of new 'green' products, as well as initiatives concerning environmental and social matters and current issues in this field.

Long before it began its transition from environmental to sustainability reporting, Credit Suisse Group recognised the key importance of establishing contact with relevant stakeholder groups. Hence, cultivating an active dialogue with suppliers, clients and other business partners is also essential. Moreover, it is becoming increasingly important to establish contact with interested sections of the general public. Credit Suisse Group therefore also participates actively in talks with responsible non-governmental organisations in order to listen and respond to their concerns and – wherever possible – to formulate joint solutions. See Figure 16.1.

While it is pleasing that such a wide range of stakeholders are interested in cultivating a dialogue with Credit Suisse Group, this poses a new challenge: as groups with an interest in environmental and, later, sustainability issues grow more diverse, the information they require and their key areas of interest also become more varied. In order to address its different target groups in an appropriate manner and to present the breadth of information in a structured form, Credit Suisse Group has adopted a modular approach to its communication efforts and is constantly expanding the scope of these activities. The Internet and Intranet have formed an integral part of this strategy for several years. For example, the Intranet has its own sustainability web page, which combines data on all the environmental and social issues relevant to Credit Suisse Group on

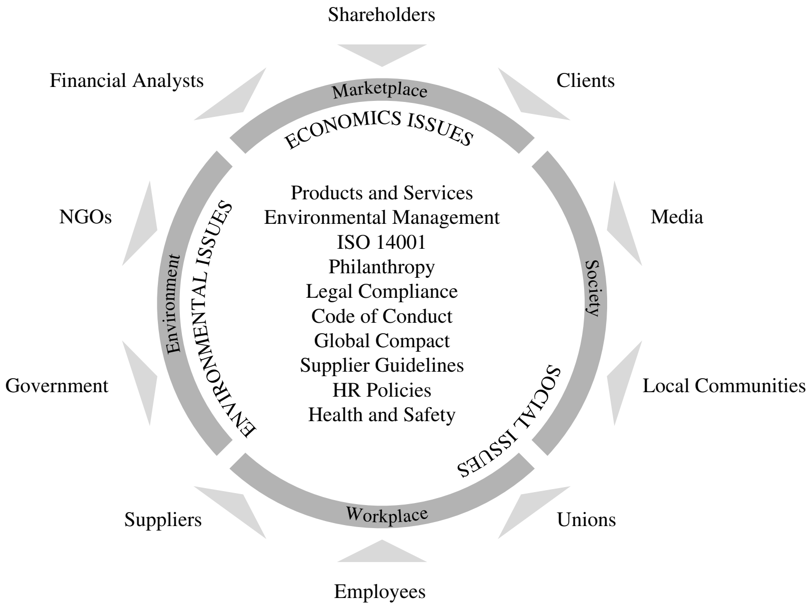

Figure 16.1 Diverse relationships: interrelationship between the different measures that Credit Suisse Group uses to pursue a sustainable business policy

a single information platform. Meanwhile, the Internet provides the latest information on sustainability for clients, investors and other interested parties. Table 16.3 shows the communication media and modules used by Credit Suisse Group to address its different target groups.

Improving data quality

One of the major challenges facing globally active companies such as Credit Suisse Group is collecting environmental and sustainability-related data on a global scale via a standardised approach and regularly updating key documents required for environmental management. This involves aggregating consumption data for the large number of premises in which Credit Suisse Group operates

Table 16.3 Credit Suisse Group – sustainability-related communication media

Target groups	Internal: Employees	External: Clients	Investors	Others
Environmental reports	X	X	X	X
Eco-performance reports	X	X	X	X
Sustainability reporting	X	X	X	X
Special publications on specific topics (e.g. energy model, environmental standards)	X			
Articles in internal publications/employee magazines and on the Intranet	X			
Articles in external CSG publications, such as the CSG Annual Report or client publications	X	X	X	X
Product information sheets		X	X	
Internet www.credit-suisse.com/sustainability and www.credit-suisse.com/sustainable-investments	X	X	X	X

around the world. Although the former Credit Suisse already began to systematically collect energy consumption data for all of its bank premises in Switzerland in the mid-1970s, data collection structures and numerous measures to improve data quality had to be implemented before all of the relevant material flows and energy consumption figures could be recorded in full.

Following on from the Group's banking activities in Switzerland – where these structures were established at an early stage – other locations and subsidiaries have gradually been integrated into the system of data collection. Regional differences in terms of priorities and environmental consciousness, as well as the adaptation of data collection and aggregation processes in line with the many changes in the Credit Suisse organisational structure, mean that this is an ongoing task.

THE BENEFITS OF SUSTAINABILITY REPORTING

Establishing a sustainability management system and the corresponding reporting structures is no small undertaking. However, it is, of course, a reflection of the active role that the Group plays within society and demonstrates that Credit Suisse Group takes its environmental and social responsibilities seriously. This is especially important in the case of a global financial services provider, which is particularly dependent on the confidence and acceptance of a variety of stakeholder groups.

The following issues are of primary importance with regard to the internal audience targeted by sustainability reporting:

- Through its sustainability dialogue with its employees, Credit Suisse Group can motivate its staff to become more aware of sustainability, it can promote trust and understanding, and it can position itself as an attractive employer.
- Sustainability reporting has also gained in importance as a management tool in recent years. In connection with its environmental management system, for example, Credit Suisse Group not only created the necessary management structures but also introduced an environmental controlling strategy as a management tool in 1996. As part of a revolving planning and control process, the data collected for the purposes of sustainability reporting not only serve as a means of monitoring the effectiveness of the measures implemented but also provide a basis for formulating and implementing future targets and initiatives. This makes it possible to identify and exploit the potential to reduce costs through the thoughtful use of resources. In 2004,

for example, more than 6 GWh of energy savings were achieved in Switzerland through rehabilitating and optimising building systems. Furthermore, sustainability reporting can represent a useful starting point in terms of identifying business potential and managing risks.

An example of the external implications of the Group's sustainability reporting is set out below:

- Independent rating agencies perform detailed analyses of companies – particularly those that are traded on the stock market. Companies which communicate their strategies and key corporate data actively and transparently have a clear advantage. This applies not only to traditional but also to sustainability ratings, which are awarded by specialist rating agencies. Particularly in view of its open information policy on environmental and social issues, Credit Suisse Group has repeatedly ranked as one of the leaders in the banking industry in top sustainability ratings.

  Credit Suisse Group believes that a good sustainability rating represents much more than an independent confirmation that it is among the 'best in class' in its industry. Far more important is the fact that increasing numbers of investors base their investment decisions on sustainability ratings, placing their money in companies that promise a better stock market performance on the strength of their progressive environmental and social management.

  In this context, it is particularly worth mentioning the inclusion of Credit Suisse Group in the FTSE4Good Index (a joint venture between the *Financial Times* and the London Stock Exchange) as well as in the Dow Jones Sustainability World Index. As a result, Credit Suisse Group stock is considered a potential investment by the more than 110 sustainability funds that are offered for sale in German-speaking Europe.

GROWING INTEREST AMONG STAKEHOLDERS

Which characteristics distinguish a good sustainability report in the eyes of a stakeholder? Credit Suisse Group expressly welcomes constructive criticism in order to find out exactly what stakeholders regard as important and to be able to fulfil current information requirements even more effectively. Readers are invited to give their feedback using the questionnaire enclosed with the report or via direct dialogue with Credit Suisse Group. Overall this feedback process has shown that there is considerable interest in Credit Suisse Group's sustainability reporting. In 2004 alone, 8000 copies of the print version of the Sustainability Report were ordered and just as many electronic versions were downloaded. Credit Suisse Group received positive feedback regarding the content of its reports in particular, as well as the clear presentation of its strengths, weaknesses and next steps. However, the process also revealed that many target groups now take such comprehensive reporting for granted and wish to have answers to detailed questions despite the general preference for concise information.

In addition, Credit Suisse is taking part in initiatives aimed at further enhancing and standardising sustainability reports. This has highlighted the following expectations, which are broadly in line with the requirements for financial reporting:

- Comprehensive: coverage of the entire value chain and all aspects of sustainability, i.e. economy, ecology and society, as well as a holistic view of these factors.
- Meaningful: provision of both qualitative and quantitative information (industry standards).
- Relevant: stakeholders want information that allows them to form a reliable picture of a company's sustainability performance.
- Regular: reporting on an annual basis is regarded as standard. It should be possible to make comparisons from year to year as

well as across longer periods; the latest information should also be available on the Internet.

- Verifiable: the report should be based on information that is both reliable and verifiable.
- Truthful: stakeholders want problems to be addressed objectively; window-dressing and advertising-style brochures are seen as counterproductive.

In recent years, around 35 initiatives have dealt with the issue of sustainability reporting guidelines – with many tackling individual aspects of this field. Their work has focused on standards for the formal methodological structure of sustainability reports, the formulation of key performance indicator systems and the drafting of a general content framework. The Global Reporting Initiative (GRI) should be mentioned in particular in this context. This group of companies, accounting experts, investors, unions, NGOs and other stakeholder groups has set itself the objective of formulating globally applicable guidelines for sustainability reporting that are relevant for all sectors. Around 600 companies have adopted the GRI guidelines to date. Credit Suisse Group was also involved in drafting sector supplements for the financial industry and is basing the further development of its own reporting on the GRI guidelines.

OUTLOOK: BROADER PERSPECTIVE – MANY CHALLENGES

Reporting about the environmental and social aspects of business has continued to develop steadily since it began around a decade ago – and not just at Credit Suisse Group. The growing need for information on the part of various stakeholder groups, as well as the integration of sustainability factors into management as a basis for long-term business success, are driving forces which will ensure that the issue loses none of its momentum in the years to come.

There are, however, still a number of challenges to be overcome in order to bring non-financial reporting up to the level of financial reporting. The following trends are of particular importance:

- **Value reporting**: investors, rating agencies and non-governmental organisations, which represent a critical public, are increasingly demanding prompt and precise information on how companies generate added value and integrate the concept of sustainability into their value chains. As the market value of a company is determined not only by conventional financial performance indicators but also by intangible values, further development work is required on systems and standards to capture these values. Specifically, this involves determining the value of brands, reputation, intellectual capital, risk management and the involvement of stakeholder groups or customer loyalty – and then quantifying their impact on a company's value.
- **Social issues**: although a large number of companies now issue a sustainability report, many of these publications still concentrate on environmental factors. In view of the growing interest among stakeholder groups in issues such as human rights or anti-corruption efforts, it is incumbent on Credit Suisse Group – as on other organisations – to address the direct and indirect impact of its business activities on these problem areas, to drive forward the necessary action and to initiate dialogue with the relevant stakeholder groups. Another challenge here is to present the interdependencies of the various aspects of sustainability in a more powerful way.

  As the concept of sustainability has expanded to include further topics – particularly in the last five years – it has increasingly been expected that companies should assume responsibility for environmental and social issues. In addition to informing stakeholders and the public about their commitments in key areas, companies must therefore also clearly communicate the limits of their responsibilities.

- **Closer stakeholder involvement**: one of the key success factors with the Global Reporting Initiative was the early involvement of various stakeholder groups in drafting the guidelines. The increased integration of external bodies is also an option worth considering in the corporate sector. It is conceivable, for example, that stakeholder groups may be invited to comment on a sustainability report – especially where it examines challenging issues.

APPENDIX

Milestones in Credit Suisse Group's environmental and social commitment

1976–9	Planning and construction of the Uetlihof complex in Zurich, taking environmental requirements into account
1977	Start of a 10-year energy-saving programme in Switzerland, involving the refurbishment of particularly energy-intensive properties
1986	Launch of the CS Fellowship Fund (UK) – Credit Suisse's first 'green' investment fund
1989	First full-time environmental officer
1990	Environmental protection becomes an integral part of corporate philosophy within the Credit Suisse guiding principles
1991	Establishment of the working group 'Credit Suisse + Environment', headed by a member of senior management
1992	Credit Suisse Group signs the International Chamber of Commerce Charter for Sustainable Development (ICC Charter) and the UN Statement by Financial Institutions on the Environment (UNEP Declaration) Introduction of a Directive requiring that environmental risk be considered in credit decisions
1994	Credit Suisse sets up an environmental risk unit
1995	Publication of the eco-performance report for Zurich and Geneva Signing of the UN Statement of Environmental Commitment by the Insurance Industry (UNEP)
1996	Introduction of an environmental controlling strategy Publication of first Environmental Report by Credit Suisse

1997	Credit Suisse Group is the first major bank in the world to be awarded ISO 14001 certification for its banking locations in Switzerland
1999	Credit Suisse Group is named 'Leading Sustainability Company' in the banking sector in the Dow Jones Sustainability Group Index
2000	Credit Suisse signs up to the UN Global Compact Initiative
2002	Publication of the Group's first Sustainability Report
2003	Adoption of the Equator Principles to take account of ecological and social risks in project finance
2004	Development of a sustainability strategy with short- and medium-term targets
2005	UN Year of Microcredit: Credit Suisse, together with partner banks in the Swiss financial centre, offers its clients a micro-finance fund

CHAPTER 17

Microfinance as Profitable Good Practice

Rolf-E. Breuer

INTRODUCTION

As corporations' economic power and resources grow, there are increased expectations, in some cases regulated through legislation, that corporations should take the initiative and become involved in the development of the communities where they do business. As a relatively new field, corporate social responsibility (CSR) departments are struggling to find the optimum means to bring forth the values of their companies. While the good intentions behind these efforts are commendable, corporations have traditionally seen this as an expense of doing business and have mostly acted alone using their own philanthropic initiatives, without much accountability for the outcome. This has contributed to the most common criticism of CSR work: it is oriented towards marketing

The ICCA Handbook on Corporate Social Responsibility Edited by J. Hennigfeld, M. Pohl and N. Tolhurst

and is not broad and significant enough to have a meaningful social impact through systematic change.

However, corporations cannot be rightly expected to take on development responsibilities, nor can governments acting alone solve the enormous global challenges putting us all at risk. And yet, the private sector has a significant role to play by contributing its business knowledge and execution efficiencies to create structures in which government and development agencies serve as catalysts to mitigate early risks and attract the scale of the private sector.

At the same time, institutional investors are increasingly demanding structures that have a significant social benefit, are financially viable and meet their fiduciary and prudential obligations. In the US alone, the socially responsible investment industry has nearly US$3 trillion in invested assets, which represents about 12% of the US$20 trillion under professional management. Most of these socially responsible investments are in 'screened' equities of listed companies and liquid securities. However, by its very nature, screening is indirect and focuses on limiting harm rather than proactively seeking capital to change the circumstances of people most in need.

As financial intermediaries, banks have the financial knowledge to structure proactive, innovative and collaborative investment vehicles that permit development agencies, governments and socially responsive institutional investors to invest responsibly, while seeking both a social and financial return. If successful, such vehicles have the potential to reduce the perceived and real investment risks, change perceptions, create liquidity, open up markets and provide the much-needed capital for the development and growth of social enterprises. In short, these investment vehicles and microfinance could serve to bring about systemic change.

Nearly 10 years ago, Deutsche Bank began supporting microfinance institutions as an effective and responsible means of providing the benefits of financial services to low-income people. This approach is actually in line with the bank's core business, i.e. financial intermediation. We saw microfinance as an opportunity to use the financial knowledge and abilities of our employees to effect social change. We soon realised that microfinance institutions have an enormous potential ahead to extend financial services to vast populations of the 'underbanked' poor. As a result, we founded the Deutsche Bank Microcredit Development Fund (DBMDF). Designed with a long-term sustainable approach, DBMDF makes loans to microfinance institutions. The bank sponsored and launched DBMDF in 1997, and it quickly attracted interest from Deutsche Bank's private banking and other clients, who made additional contributions. The fund uses the bank's global resources to hedge currency risks, gain the commitment of local banks and catalyse the establishment of local sources for microfinancing, resulting in a sustainable drive to alleviate global poverty. To date, the fund has invested in 38 microfinance institutions in 24 countries (with one default) and facilitated over US$47 million in local currency financing that has benefited over 240000 micro-entrepreneurs worldwide.

The success of this initial fund led the bank to establish the Global Commercial Microfinance Consortium (the 'Consortium'), an innovative partnership comprising leading development agencies, institutional investors and highly respected global corporations. The Consortium is a US$75 million fund that invests in the development of the microfinance sector. It also fosters relationships between local financial institutions, a fundamental source of capital, and microfinance institutions to create indigenous financial systems that serve the working poor. The Consortium's work is not tied to the business interests of any particular member and each investor has equal status.

Deutsche Bank's approach to CSR includes not only the use of financial resources but also the transfer of knowledge and skills as well as the commitment of our employees to bring about social change. This knowledge and skills transfer as well as our employees' commitment are at the heart of the bank's success in microfinance.

They facilitate the creation of local financial networks and financial systems to serve the working poor and alleviate poverty.

Furthermore, we are convinced that 'downstreaming' financial services through microfinance eventually leads to greater global economic stability. As a global financial institution, Deutsche Bank has an important role to play in helping to establish regional and local business structures that work to reduce the gap between developed and less-developed economies. As the local markets are strengthened as a platform for mainstream business and trade, the development gaps tend to become smaller.

WHAT IS MICROFINANCE? DOWNSTREAMING FINANCIAL SERVICES

Microfinance 'downstreams' financial services to the poor, providing them with access to loans, savings plans, insurance and other services on a sustainable basis. This industry is growing rapidly and over the past 25 years has proven to be commercially viable, in terms of both profitability and risk.

Credit has been a cornerstone in the creation of wealth through the ages. From the de Medicis to the Vanderbilts, the power of credit has been used to leverage resources for people with wealth. In the modern age, the middle class has also had broad access to credit through mortgages, consumer finance and small business loans. Today, microfinance brings the power of credit to the grassroots level – in the form of loans to the self-employed poor – without the usual requirements of existing assets and a previous credit history. While not a panacea, evidence shows that loans to poor entrepreneurs improve household income, education levels, health, self-reliance and community development. A growing body of research indicates that over time, most microfinance borrowers move above the poverty line (Khandker, 2003).

Historically, however, nearly every region and culture of the world has actually had informal credit networks and moneylenders who have recognised the potential profitability of lending to the self-employed poor. And their businesses are extremely varied; they work as street vendors, merchants, cobblers, recyclers, farmers or fishermen, as well as in hundreds of other types of businesses (Ledgerwood, 2000: 13). In the 1970s, Grameen Bank in Bangladesh and others began providing training and loans of US$25 to US$100 to poor entrepreneurs just starting out: typically a poor woman needing working capital for her tiny business. Grameen required these women to group together, participate in pre-loan training and mutually agree to repay each other's loans. Surprisingly, Grameen experienced repayment rates in excess of 98 %.

Today, Grameen and other microfinance institutions have demonstrated sustainable methods of providing financial services to the poor. And they all have several aspects in common: small short-term loans, a form of peer review of the applicants, rigorous collection, interest rates set to cover delivery costs and a focus on clients with informal businesses. Some of these organisations are regulated financial institutions with millions of customers, professional staff, financial profitability and a wide range of products and services.

Microfinance provides credible evidence, from regions around the world, which disproves perceptions that the poor are not creditworthy or enterprising and that they cannot be served profitably. Indeed, the track record of microfinance has been one of repeatedly disproving prior assumptions, as shown in Table 17.1.[1]

Microfinance has expanded from credit-based products and methods to include savings, insurance and payment services,

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[1] The World Bank Institute. A distance learning course in microfinance for non-specialists, Elizabeth Littlefield, CEO Consultative Group to Assist the Poorest. *Microfinance's Evolution: Past, Today, and Future*. http://www.worldbank.org/wbi/banking/eastasiamicro/module06.html and http://www.worldbank.org/wbi/banking/eastasiamicro/pdf/mod06_littlefield.ppt.

Table 17.1 Track record of microfinance

Era	Myth	Fact
Early 1980s	Poor people do not repay their loans	Many microfinance institutions have better repayment rates than banks
Early 1990s	The poor cannot pay the full cost of microfinance	A few microfinance institutions begin covering all their costs
Mid-1990s	MFIs must depend on donor funding rather than commercial sources	Top microfinance institutions begin to attract significant commercial funding
Today	MFIs cannot be profitable and reach the poorest	The microfinance industry is focused on helping MFIs attain these two objectives

all designed to meet the needs of poor customers. Many microfinance institutions (MFIs) retain overall profitability even while linking these products to non-profit services, such as training, literacy and business development skills. A growing number of microfinance institutions have the professionalism, procedures, management and institutional capabilities to deliver these services to the poor in an efficient, customer-friendly and profitable manner (Ledgerwood, 2000: 22).

There is no doubt that microfinance is here to stay. Currently, there are over 70 million microcredit borrowers, with an estimated aggregate loan portfolio of US$7 billion worldwide. The sector is expected to continue its high annual growth rate of 30 % per year. Within 10 years, microfinance will potentially reach over 500 million poor people and be a global, profitable industry with microfinance institutions numbering several thousands and assets in the realm of hundreds of billions of euros. Clearly, microfinance will play a major role in the future. The question is: how will we arrive at this future?

THE ROLE OF SOCIAL INVESTMENTS IN MICROFINANCE

One can argue that most investments have a social value in that the economy expands and jobs are created. So, what do we mean by socially responsible investments? The act of investing per se entails foregoing immediate benefits for a later return that hopefully exceeds the present value. When we add the term 'socially responsible', clearly there is an expectation of increased value for the good of society that goes beyond the benefits of economic expansion and higher employment. By adding the dimension of social responsibility, social investing raises the bar from merely a maximisation of profits to a maximisation of profits and of the value for society.

The Deutsche Bank Microcredit Development Fund is representative of the bank's broader approach, not only to microfinance, but also to proactive social investment in general. This is a field where the bank's financial know-how is used to bring capital to communities that do not have traditional access to funding. We are finding that this lack of access often has more to do with perceptions than with reality, and even distressed communities constitute a market in terms of people, capacities, scale and potential profitability. As stated above, microfinance has faced large hurdles in perception, whereby the poor were seen as uncreditworthy, able to benefit from charity; but they were not perceived as entrepreneurs who could leverage the benefits of credit. However, over the past 20 years, microfinance has proven that the latter is true. Data on microfinance institutions shows average portfolio at risk (PAR > 90 days) of 1.5 %[2] (see Figure 17.1).

[2] The Microfinance Information Exchange (the 'MIX') is the global information exchange for the microfinance industry. The MIX strives to facilitate the exchange of information and investments, promote transparency and improve reporting standards in the microfinance industry. See www.mixmarket.org.

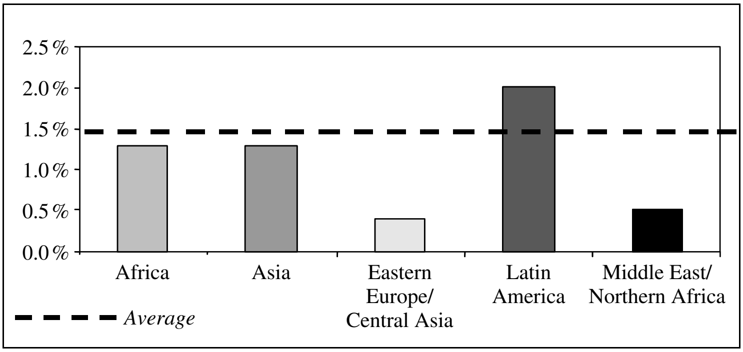

Figure 17.1 MFI average portfolio at risk > 90 days

Figure 17.2 summarises this data by geographic region. Besides having good asset quality and low default rates (using PAR > 90 as a proxy for outright defaults), microfinance institutions have proven to be profitable businesses. 2002 data shows that the microfinance institutions surveyed had an average return on equity after adjustments of 14.6 %.

In addition, data shows that many microfinance institutions have accessed commercial debt – 90 % of Share Microfin India's gross loan portfolio (US$2 million) in 1990 was financed from subsidised

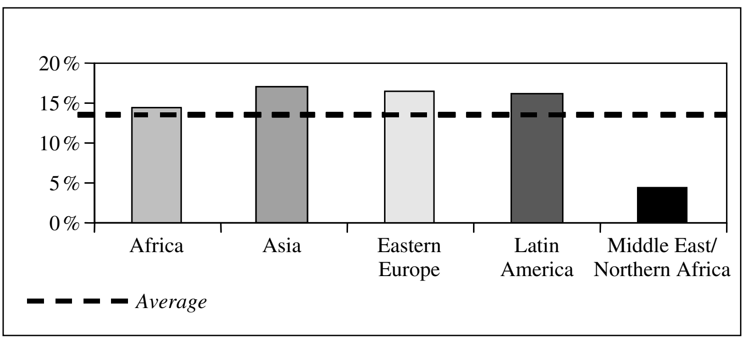

Figure 17.2 Adjusted return on equity for 66 financially self-sufficient MFIs

noncommercial sources. In 2004, 98% of Share Microfin India's US$18.5 million gross loan portfolio was financed from commercial sources.[3]

The development of these microfinance markets presents a potential business opportunity for socially motivated investors willing to consider the 'unbanked' as 'bankable'. Increasingly, commercial banks are providing financing to microfinance institutions directly throughout the world, and some have even established subsidiaries as a business line. And credit-rating agencies such as Fitch and Standard & Poor's have issued ratings on microfinance institutions. Furthermore, in Latin America, Africa and Asia, microfinance institutions have utilised the local capital markets to issue bonds.

The core concept of Deutsche Bank's work in microfinance is to make use of the bank's financial know-how to bring capital to communities that do not have access to traditional capital for various reasons, including preconceptions about the distressed communities and poor people, their limited capacity and scale, the lack of liquidity and, in some cases, constrained profitability. We would argue that the main hurdle is our perceived limitation of the distressed communities and their inhabitants rather than the actual capacity, scale, liquidity or profitability. For one can increase capacity through investment, leading to the scale and volume that necessitate secondary markets and liquidity. Even with small margins, profits are very attractive due to the size of these underserved markets.

Although these markets are underdeveloped, their potential is real and being tapped. Microfinance at the 'bottom of the pyramid' is a leading concept in targeting the largest sector of the population. The poor are now being regarded as a potential business opportunity and the 'unbanked' as 'bankable'. Such shifts in perception are real glimpses of the future. As social investors, we believe our primary

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[3] Data from Share Microfin Limited, India.

focus should be here, while we continue to provide philanthropic resources for essential projects that are not commercially viable.

For all of their benefits, these proactive social investments are complex, requiring multiple layers of financing between socially motivated investors, philanthropic foundations, development agencies and the private sector. In addition to market potential, financial structuring capabilities are necessary prerequisites for the commitment and development of proactive social investment structures. On the one hand, development agencies face their own challenges and limitations. Because they are outside the private sector, they often find it difficult to bring in the involvement of corporations. It is much easier for them to assume the proxy role of commercial investors rather than to serve as a catalyst by bringing the private sector to the table, especially when most businesses view development issues as the exclusive domain of the development agencies. Corporations have also been historically reluctant to form partnerships with development agencies, which are at times challenged by bureaucracy and inefficiencies. On the other hand, social investors and charitable foundations can often take high-risk positions, but they normally lack the capacity to structure transactions.

This means the private sector has the opportunity to become much more involved, if the hundreds of billions of euros needed to effect change are to be mobilised. What is needed is some innovative thinking to create partnerships and cooperative structures to tackle some of the larger social issues. The scale of global poverty and other social issues is such that they cannot be handled by any one entity. It is going to take all the tools in our toolbox rather than a 'one-size-fits-all' approach. Governments also have a key role to play in making sure that fiduciary concerns and the related regulations are balanced with social needs. There is in fact one area where government regulators could be particularly effective in mobilising resources from the private sector: by allowing responsible microfinance institutions to take deposits from their clients. Although it may be prudent caution, because of fiduciary concerns, to prohibit microfinance institutions from taking deposits, let us keep this in perspective with the issues we are facing, namely that more than 75 % of the population in developing countries have no access to financial services.

THE GLOBAL COMMERCIAL MICROFINANCE CONSORTIUM

As mentioned above, at Deutsche Bank we worked hard to launch a unique US$75 million fund called the Global Commercial Microfinance Consortium, a partnership formed by some of the most innovative global companies and leading development agencies. The governance of the Consortium is through the Board and all partners are invited to join the Board, giving them an equal voice. Ultimately, the Board has the authority to give notice to the present general manager, Deutsche Bank, which was also the Consortium's founder.

The Consortium presents an opportunity for corporations to fulfil their corporate social responsibility through a well-protected, return-based investment, rather than through grants with limited accountability. The Consortium's work is not tied to the business interests of any particular company, but aims at improving the infrastructural environment by addressing poverty and its global issues. The objective of the Consortium is to bring about systemic change by creating indigenous systems for financial support for the working poor by providing risk-reduced financing to local financial institutions. The idea is also to encourage relationships between banks, which are fundamental sources of local capital, and microfinance institutions.

The Consortium has a US$15 million equity base and US$60 million in five-year floating rate debt. In terms of structure, the Consortium is a hybrid of a private equity fund and unsecured bullet revolver. The debt piece, which is targeted for institutional investors, is credit enhanced through a 40 % subordination. Half of this credit enhancement is the US$15 million equity base, provided by DFID (UK development agency) and AFD (French development agency), and the other half is a first-loss US$15 million guarantee from USAID (US development agency). The Consortium also has an embedded cap: debt holders can only lose 75 % of their invested capital. One can question the need for all this protection to bring in the private sector. The 30-year US mortgage market is a good example of why. These days the 30-year mortgage market is one of the most liquid markets, but only 50 years ago banks considered it too risky to make a 30-year loan. It was the full guarantee provided by the US government that propelled this market and created its large capacity, scale and liquidity. Today, within minutes, several offers are obtainable from banks fiercely competing to lend for 30 years. This is how credit enhancement can erode perceived risk.

Even with high levels of risk protection, like that of the Consortium, it is very difficult to bring institutional investors to commit to nontraditional, 'market' or 'close-to-market' investments, even when there are clear social benefits. These investors are looking at social investments with the same benchmarks they use to judge highly developed commercial markets. They want these assets to be rated, and they want them to be liquid with daily price quotes. But you cannot have it all, especially in trying to develop the emerging proactive social investment market. What is important is to develop not only structures and opportunities, but also a track record, and to change the institutional investors' attitudes. The evaluation measurements they use should not only be prudent, but should also take into account the special nature and inherent challenges of socially motivated investing.

The Consortium is taking a pioneering role in the development of microfinance as an asset class, and it is designed to accelerate the development of the microfinance market in general. For example, by attracting and sharing risks with local banks, the Consortium's US$75 million in funding will be leveraged and multiplied, demonstrating the viability of microfinance as a commercial investment at the local level. In addition, by creating new structures that leverage resources and reduce risk, the Consortium forges important new avenues and commercially feasible methods. These vehicles and methods can eventually be replicated and increased in scale to help in the growth of the field. Until now, there has been very little commercial investment in microfinance, but for the first time the Consortium has attracted major global corporations as commercial investors in microfinance, showing others that microfinance is in fact emerging as a viable commercial investment and asset class.

Deutsche Bank is now starting to pursue microfinance as a business. Our asset management business line is, for example, bidding on an opportunity to manage a 200 million euro microfinance portfolio for Eastern Europe. The bank's involvement in microfinance is expected to deepen as the microfinance sector grows and commercialises. The bank's asset advisory business and the Consortium represent a new wave of investment in microfinance, and the bank anticipates a series of investment vehicles will be developed to help meet the rapidly increasing demand. From these small beginnings, the bank hopes to have a role in promoting the growth of what it believes will be an asset class potentially worth hundreds of billions of dollars.

We are at the very early stages of development, not just of microfinance but also of the social investment industry as a whole, and a lot more is still to come. The aerospace industry, the pinnacle of human achievement and innovation, started less than 100 years ago with copper tubes and rockets that looked like firecrackers. Considering its relatively short lifespan of about 120 years, the telephone industry is having a profound effect on developing countries through the growth of the cellular phone business, even in the hands of a poor population. Technology is changing the world right before our very eyes, and the potential of proactive social investment is tremendous. Just imagine what the social investment industry could be like in 100 years' time.

CONCLUSION

Anything that has a potential stream of revenues can be financed. We are not saying that it is always easy – but we can, and we intend to, finance schools, universities, vocational training facilities, healthcare facilities, hospitals, farmers, the development of alternative forms of energy, etc. But before socially responsible investment can take place, it needs to be financed, and thus financial institutions have a special role to play in the development of proactive social investing. As these investments are in their rudimentary stages of growth, development agencies and foundations will have to serve as catalysts by assuming or mitigating early, economic and especially perceived risk, and by helping to create layers of subordinated capital or by taking less in return, to make the investment profitable for private investors.

The good news is that social investors motivated by a desire to achieve social and financial objectives are increasingly calling for public–private partnerships. The corporate social responsibility window can also serve to attract private sector involvement in the development field. It is up to us to take advantage of these opportunities and accelerate these trends.

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CHAPTER 18

Business Ethics as a Management Instrument – Vision, Values and Code of Conduct at Henkel

Ulrich Lehner

INTRODUCTION

Some time ago, the *Frankfurter Allgemeine Zeitung* headlined a story with the 'return of ethics' to the corporate boardroom. The headline was certainly chosen to attract attention, but at the same time it characterises the recent, increasingly critical discussion about the excesses associated with the principles of the market economy.

Everywhere in today's society we can sense that the world is becoming more pluralistic. In addition to Christianity, Islam and other religions, youth sects and the 'New Age' offer competing visions of the meaning of life. The borders of national economies have become less important, while globalisation accelerates cultural diversification. Changes occur faster, prevail more rapidly and have global dimensions. The collapse of socialist and communist regimes

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has led to a sometimes excessive materialism and egoism in business, reflected in the prevalence of individualism and the pursuit of selfish group interests. Political parties, labour unions, business associations and churches complain about falling membership: a drop-out society with autistic traits is arising. Competition over the distribution of economic wealth is intensifying and, in the context of globalisation, is taking on a new social and political dimension that heretofore would have been unimaginable. Loss of values, moral decline and changes in values are all cause and effect at the same time. Television and the electronic media reflect this development and at the same time contribute to an increasingly commercialised consumer culture. The value system of developed countries has fallen into a trap laid by economic prosperity.

Some see the rallying cry of the French revolution 'liberty, equality, fraternity' being corrupted into 'arbitrariness, indifference and apathy'. Nothing counts. Everything is in a constant state of flux; a sense of orientation and grounding is lacking. Values are questioned.

Others turn to a fundamentalism that adheres to traditional values and is in danger of fossilising. Exclusion replaces openness and curiosity. Under such conditions neither the economy nor culture nor society can prosper.

Today, more than ever, we need value systems that are valid across frontiers, cultures and the narrow limits of corporate departments. They must be valid for our own time and in the light of coming developments. The point of departure for the widespread criticism of developments within the business community is to be found precisely in the declining consensus on basic values and the need for a durable frame of reference and orientation. This criticism is articulated not only by anti-globalisation activists or single-interest groups but also by business leaders themselves.

Political leaders have also recognised that an unbridled application of liberal economic principles could endanger the acceptance of the free market economy, in spite of its recognition as the best economic system.

The reservations with respect to uncontrolled liberal economics have their reasons. In its search for the best possible combination of high returns and flexibility in a globalised economy, capital tends to seek locations where it can escape regulation and costly tax or social security levies. From the point of view of nation states, capital is therefore contributing less and less to financing national social security systems. This may be acceptable for market fundamentalists, since global markets contribute to growth and prosperity. At the same time, the workings of global markets tend to limit the contribution of global corporations to financing of social needs.

This criticism applies to the macro-level first of all. Although markets have become global, political decision making is still based on the principle of national sovereignty and limited supranational control of markets.

Comparable arguments and behaviour based on group egoism can be found in the discussion at the meso- and micro-level. The only difference is that business associations, government agencies, corporations or corporate departments strive to achieve their own specific objectives in the local, regional or transnational context.

In the context of the social market economy as conceived by Ludwig Erhardt, the Federal Republic of Germany's first Secretary of Commerce, the decisive question of ethics to be raised is not rooted in our economic system, but in people themselves. The problem lies in the deficiency of society's socio-technical constructs, to the extent that people believe they can manage without a personal ethos. The recent history of our economic theory and practice shows this, since in cases such as Enron and Worldcom – not to mention even more recent developments in Germany – it was not institutions that could be held responsible but individuals and their incapacity or unwillingness to design appropriate processes and structures to manage and control the organisations for which they were responsible. The reason for this widely observed development over the past 10 years is the de-personalisation of business decision making as a result of technological advances and globalisation, which has ultimately caused economic thinking to loosen its bonds with the wider culture. While previously most enterprises identified themselves with the society in which they operated – and this is still the case in many parts of Germany, especially in family enterprises and in medium-sized businesses – in recent years an economic rationality with a strong US influence has come to the fore. But the hopes for greater prosperity and fewer conflicts associated with this approach were not satisfied as fully as expected, which in turn led to a loss of confidence in the market economy, in business, in managers and in government's ability to ensure order and provide social security. For corporations, the objective is therefore to develop confidence once again – and in doing so, to expand the concept of corporate social responsibility over and above a too exclusive focus on short-term economic advantage.

In order to avoid any misunderstandings: corporations are not to be seen as charitable organisations! Nor can they assume government's responsibility for general public welfare or for reducing the unemployment rate.

But the entrepreneur's profit-achieving objective is subject to two considerations, which broaden the purely economic definition of the term corporate responsibility – also in terms of optimising business processes:

- Firstly, frictions resulting from an overemphasised focus on economic objectives can negatively influence the company's image and lead to unwanted reactions on the part of its stakeholders, thus damaging the company's global positioning, which in turn can lead to a lower market valuation of the company, as well as a reduction in employees' effectiveness and efficiency.
- Secondly, business ethics can be used as a management instrument to help achieve an internal, functioning order, which in this pluralistic world does not rely on a rigid code of behaviour, the details of which can never be sufficiently defined.

For this reason Henkel does not regard business ethics or related issues like corporate governance or corporate social responsibility, including corporate citizenship, as cost centres, but as value-creating (at least value-conserving) regulative instruments of modern enterprises.

BUSINESS ETHICS – A DEFINITION

In the *Encyclopaedia of Applied Ethics* published in 1993, Professor Georges Enderle defined ethics as '(…) the teaching of right or good behaviour. (…) The subject of ethics is people's behaviour (i.e., the manner in which they lead their lives) and actions. (…) Relevant topics in the context of ethics are questions of differentiating good and evil, defining the purpose and the meaning of life, the good life, and happiness.' On this basis, ethics is to be defined as a conceptual frame of reference for action, fully consistent with Kant's dictum: act only in accordance with a maxim that could serve at any time as a universal law.

Business ethics involves conveying this definition into corporations; it therefore focuses on morals or morality in the field of business.

In doing so, business ethics do not only focus on the 'company', but on the individuals that form the company as a socio-technical system and advance it – and thereby have to act in a context which is not always free of conflicts of interests given the multifarious objectives of individuals, the company and its various departments, not to mention the general public. The philosopher Jeremy Bentham (1748–1832) captured this reality very accurately by defining ethics as nothing but the regulation of egoism through values.

The concept of 'values' is to be understood in an interdisciplinary manner. On the one hand it must reflect the practical value of business activity and on the other hand the moral principles mirroring the specific ethos of individuals, cultures or corporations.

While 'practical value' can be captured rather simply with the help of economic metrics, moral values undergo certain changes over time and in their specific context, which explains why a static definition and a one-dimensional anchorage across cultures appear to be false. Simultaneously the moral values associated with ethical approaches are so 'profound' that a desired change of values takes a long time.

In the context of corporate management, for many corporations ethics is an effective instrument, but one that works over the long term and which serves as a constant frame of reference for other management instruments (for example, incentive systems or general guidelines for corporate behaviour).

Used effectively, business ethics can be considered a regulating and control system for corporations, and one which ultimately – in the ideal situation – actually leads the corporation through its contribution to corporate identity and the definition of corporate objectives. Yet reality is characterised by a high degree of heterogeneity and complexity, which, like most unstable factors, challenge the ideal type of regulating and control system.

BUSINESS ETHICS AND SOCIAL JUSTICE

The growth of international business has fostered criticism by anti-globalisation activists, but this criticism has no foundation either in ethics or catholic social teaching. On the contrary: social solidarity is only possible to the extent that liberty, responsibility and associated self-interest have the opportunity to unfold their benefits. This is because there cannot be any economic dynamism unless one accepts responsibility for oneself. But no one will assume the responsibility necessary for economic development unless there is a reward for accepting entrepreneurial risk, i.e. unless it is possible to achieve a risk premium.

Those who seek to halt this process on the basis of an erroneous understanding of social justice and who willingly confuse the objectives of the social insurance system with politically enacted egalitarianism will achieve exactly the opposite of what they intend. Viable jobs will be lost, or at best relocated, the entrepreneurial spirit so vital to economic development and indispensable structural change will be discouraged and standards of living will decline.

Social justice therefore does not mean ensuring a particular distribution of goods and wealth among different social groups, but rather implies ensuring equality of opportunity and requiring individuals to assume responsibility for their own lives. This applies as much to the (re-)integration of the unemployed into the labour market as it does to acquiring knowledge and education. Ethical values and social responsibility thus have nothing to do with the allocation or distribution of material goods, whether at the level of the corporation or the overall economy. The question is not which projects a company spends its money on; the question is how a company earns its money.

THE HENKEL GROUP

Henkel is an international provider of branded articles and systems solutions. Within its chosen business sectors, the Henkel Group is a leading participant in the global market. In order to further strengthen this position, Henkel repositioned itself strategically in 2001 – its 125th anniversary. The former 'Specialist for Applied Chemistry' is now a corporation focusing on high-quality branded articles and cutting-edge technologies. As part of this strategic reorganisation, Henkel disposed of its chemicals unit, Cognis, and its stake in the Henkel-Ecolab joint venture. In addition, certain business units were regrouped into new, globally operating business sectors.

Today, the Henkel Group has three strategic areas of competence: home care; personal care; and adhesives, sealants and surface treatment. For the latter strategic area it makes sense to differentiate between consumer and industrial businesses so that Henkel's strategic areas of competence are covered by four globally operating business sectors:

- Laundry and Home Care;
- Cosmetics/Toiletries;
- Consumer and Craftsmen Adhesives; and
- Henkel Technologies.

People in more than 125 countries put their trust in Henkel brands and technologies. Of Henkel's approximately 52000 employees worldwide, some 80% work outside Germany. With its world headquarters in Düsseldorf, Henkel is one of the leading global companies in Germany. In fiscal year 2005 Henkel Group had total sales of 12.0 billion euros with an operating profit of 1.2 billion euros.

BUSINESS ETHICS AND CORPORATE SOCIAL RESPONSIBILITY AT HENKEL

Business ethics at Henkel is characterised by three criteria:

- It is neither an end in itself nor an occasional, incidental activity, but a deliberate process focused on securing the future.
- It is a framework for each individual person as well as for the company as a whole.
- It aims to contribute to 'shareholder value'.

At Henkel we understand the concept of 'shareholder value' as the sum of all actions taken to steadily improve the competitive position of Henkel's businesses, thereby supporting profitable growth. In our opinion the pursuit of shareholder value is in the interests of shareholders and all other stakeholders. It ensures compensation payments, improves the long-term employment situation, brings in taxes for the state and assures our business partners of a stable and profitable business relationship.

At Henkel, shareholder and stakeholder value are two interrelated and mutually supporting elements of a sustainable corporate strategy. We are dedicated to sustainability and corporate responsibility.

If business ethics is understood as a point of reference and framework for our employees, who stem from the most varied cultural areas worldwide, then business ethics, as we conceive it at Henkel, has a functional character for management. A code of business ethics helps to guide the behaviour of our employees in keeping with our corporate strategy, and is especially helpful in doing so in ambiguous or undefined situations for which it is nearly impossible to provide explicit rules in advance. 'Linking people to strategy' is the term one of our American employees devised to describe this function of business ethics. This function alone suffices to ensure that business ethics makes a significant contribution to the company's current and future business success. In the light of this value function, the occasional criticism that business ethics is just a byproduct of business activity and a playground for managers infatuated by values, but lacking in operational responsibility, is unfounded and false.

The causal relationship between business ethics and business success is confirmed in practice. Recent studies have shown that employees worldwide favour companies that – in addition to appropriate compensation – are guided by established ethical rules. The same is true of customers, suppliers and all other stakeholders. The value of business ethics is also reflected in the valuation of companies by the financial community, as shown by the different sustainability rankings and the emergence of special ethical investment funds favouring companies with a distinct business ethics orientation.

In addition, similar considerations also apply to the evaluation of the attractiveness of countries and thus must be taken into account as location factors. Investors and companies prefer countries with clearly articulated ethical values that are also observed by the people and companies in these countries.

Today, Henkel is a company that has evolved from a multi-domestic position to a transnational enterprise with global presence. In the process, Henkel has gone through several stages of development. As the company has developed, our value system has advanced: from a national to a multinational level and ultimately to a globally valid and shared system. This value system includes operational and strategic targets as well as administrative and legal principles and is binding for all Henkel companies worldwide. It defines Henkel's corporate vision and values and currently has three major dimensions:

- Henkel's Code of Conduct.
- Henkel's Code of Teamwork and Leadership.
- Henkel's Code of Corporate Sustainability.

The implementation of these three dimensions documents a commitment by Henkel and its employees to clearly visible behaviour based on the company's vision and values. It also serves as a management platform for Henkel as a whole, one that pursues three clear goals:

- Building confidence.
- Creating a sense of belonging, a 'we' feeling.
- Creating a common focus on internal goals.

These three dimensions first of all serve as an inner frame of reference for all employees. However, the better this value system is applied and communicated to customers and suppliers, the better the goals of the management platform can reach external stakeholders. In this regard, the strong relationship of our value system to our corporate identity becomes evident.

Our vision and our values, our Code of Conduct, our Code of Teamwork and Leadership and our Code of Corporate Sustainability reflect our entrepreneurial and social responsibilities. They serve as mandatory guidelines for our company, a set of practical instructions governing our relationships with customers, suppliers and colleagues alike.

Vision

Business ethics is not something that can be driven into employees' heads overnight where it then becomes an internalised, dynamic management and control device focused on fulfilling predetermined goals. In fact the process more often takes several years and requires conscious, exemplary management leadership to be successful. If business ethics – as in the case of Henkel – is used as a framework for the companies' objectives, it is even more important to align the ethical principles with targets that remain valid for the long term and across cultures. These objectives are found in the company vision.

The Henkel Group's shared vision defines the company's purpose across all business units and defines the company's top objectives for employees, business partners and shareholders.

As Henkel evolved from a chemical specialist to become a company focusing on brands and technologies, Henkel's vision also had to be redefined. The challenge was to find clear wording offering a distinctive description of Henkel's business. In seeking this definition, we recalled the key to Henkel's success since its origins: making work easier for our customers and providing them with better results. This essential motivation of making things easier and better is still valid today. It is timeless and is valid for Henkel worldwide: for consumer goods as well as industrial goods, for our industrial customers as for trade partners and consumers.

Going back to the roots made it possible for Henkel to define a vision which will endure in the future: 'Henkel is a leader with brands and technologies that make people's lives easier, better and more beautiful.'

Based on this vision, we developed a new corporate identity for Henkel's different businesses, which uses the Henkel company name to emphasise membership of the global group.

With the choice of the claim 'Henkel – a brand like a friend', we also convey a certain rule of conduct for the employees and the company itself. This also helps to leverage the psychological strengths of the brand in general – namely building trust through reliability and quality – for the umbrella brand Henkel.

Trust is a company's single greatest asset. Trust can reduce transaction costs in businesses between customer and vendor, between a company and its employees, between management and shareholders as well as other stakeholders. Trust, however, can only arise if the company, its employees and its brands are consistent with respect to their language, symbols and behaviour in their interactions with people.

Trust emerges through transparency, awareness, proximity, coherence and quality and is confirmed when promises are kept. Where inconsistencies exist, it is difficult to persuade people that promises made will be fulfilled, because trust – which is the basis of every form of cooperation – diminishes. Avoiding such a possible loss of confidence is one of the most important targets that we pursue with our focus on business ethics.

This explains why Henkel adopted a new vision in 2001. Henkel has over 750 different brands. Consumers in more than 125 countries trust in brands and technologies from Henkel. It is a successful, multinational company growing splendidly. However, what was still missing was a binding element that could link all Henkel's worldwide activities, so that they could be visible and experienced emotionally, without detracting from growth and development. I am convinced that we have succeeded in creating this binding element with our current corporate vision.

Values

Today's economy is characterised by strong international competition. In such an environment, a company can only be successful if it has a common understanding with its employees of the manner in which the corporate vision is to be implemented.

At Henkel, we have found this common understanding through the definition of globally valid corporate values. They articulate Henkel's culture, which adheres closely to the principles of sustainable business practice. And they create an environment that is as productive as it is personally rewarding. In a second step, our vision and values were specified for implementation purposes in the Code of Conduct.

On the basis of our vision and our understanding of corporate responsibility, we derived 10 fundamental values:

1. We are customer driven.
2. We develop superior brands and technologies.
3. We aspire to excellence in quality.
4. We strive for innovation.
5. We embrace change.
6. We are successful because of our people.
7. We are committed to shareholder value.
8. We are dedicated to sustainability and corporate social responsibility.
9. We communicate openly and actively.
10. We preserve the tradition of an open family company.

In order to foster understanding for these values and thus support their implementation throughout the company, we set out the values in writing and communicated them vigorously so that they became established as a natural part of employees' relationship with Henkel. The essence of Henkel's values can be summarised as follows:

1. We are customer driven

We provide brands and technologies that (consistently) meet or exceed our customers' expectations. Our ability to understand and solve complex problems enables us to respond to our customers' specific needs. The quality of our products and dialogue with our customers are the means by which we establish long-term partnerships based on reliability, credibility and mutual trust.

2. We develop superior brands and technologies

Our strong brands and innovative technologies help to shape the future of the markets and the markets of the future. We achieve this through efficient management systems and use our knowledge and experience to obtain leading market positions for our brands and technologies worldwide.

3. We aspire to excellence in quality

We set correspondingly high quality standards in order to further strengthen the leading positions of our brands and technologies. We cultivate and foster quality awareness among our employees through ongoing training, information and motivation. The definition of first-class quality for our products comprises not only convenience and high product performance but also all-encompassing product safety and environmental sustainability.

4. We strive for innovation

By providing an environment and a flexible structure in which innovative thinking can flourish, we safeguard our competitive advantage in the long run. Our innovative strength and drive are based on research and development, extensive chemical and technical expertise, and a sound knowledge of customers, consumers, suppliers and markets. We take the requirements of sustainable business practice into account right from the start of the innovation process.

5. We embrace change

We anticipate changes well in advance. Therefore we are able to respond to changing circumstances by adapting our processes and structures rapidly and flexibly. This enables us to maintain the greatest possible efficiency at all times and in all parts of the economy. We are a dynamic learning organisation, driven by a worldwide system of active knowledge management.

6. We are successful because of our people

We value and respect our people. Their talents and skills are our strength. Our success is founded on the knowledge, creativity, social competence and high commitment of our personnel. In order to support this, we create an environment in which individual performance and teamwork can thrive. At the same time we expect outstanding performance and demand that our employees apply the highest standards of honesty and integrity in all their daily business conduct. We assist our employees in reconciling their dedication to their job with their private lives.

7. We are committed to shareholder value

We understand shareholder value in terms of a common objective to increase the value of our company. We constantly benchmark our performance against the best in the worldwide market in order to earn a competitive return for our shareholders. We optimise shareholder value by managing worldwide growth of our business operations responsibly.

8. We are dedicated to sustainability and corporate social responsibility

We are responsible and committed members of society within every country in which we operate. We are convinced that effective environmental protection and social balance are the foundations of our economic success. Sustainable development is a challenge involving the whole of society, for which we seek viable and permanent solutions in dialogue with all social groups.

9. We communicate openly and actively

We live out a culture of trust, mutual respect and openness – both within the company and to the outside. We communicate openly and actively, even when we have made mistakes. We acknowledge our duty to keep our employees, shareholders, customers, suppliers and the general public informed, and see it both as a challenge and an opportunity to further the integration and acceptance of our company.

10. We preserve the tradition of an open family company

The history and the future of our company are established on entrepreneurial foresight and a long-term operational perspective. The relationship between the company and the founding family is one of continuity, openness and mutual trust. The same is true of relationships with our public shareholders and our employees.

These principles as summarised above clearly demonstrate that the economic and the ethical understanding of values are inextricably linked. Although at first sight it may seem inconsistent to use economic and ethical value concepts in parallel, in point of fact we chose to do so with clear intent and purpose. It was only by emphasising the interdependence between the two value concepts that we could generate a comprehensive and understandable framework of rules and goals for our employees that takes the company's – and our employees' – economic and social responsibility into account. Seen in this light, the implementation of our corporate values has surely decisively marked the company.

Code of Conduct

Henkel's image and reputation as a company that operates in an ethically and legally appropriate manner is inseparable from the conduct of each single employee and the way we perform our work, everyday. Employees of Henkel are expected to respect laws and regulations, avoid conflicts of interest, protect the Company's assets, and show consideration and appreciation for the local customs, traditions and social mores of the various countries and cultures in which Henkel conducts business. In fulfilling our responsibilities within Henkel, we do not take ethical shortcuts. Improper conduct will never be in Henkel's interest.

From our vision and values, we derive a range of (concrete) rules of conduct for day-to-day use. At Henkel, these rules are codified in an internal Code of Conduct. Containing important guidelines of behaviour, this code is intended to guide all employees in their daily business but also in strategic planning and decision making processes.

The Code of Conduct is not intended to be a static instrument. It will be continuously developed and adapted to the ever-changing legal and economic environments that affect the ways that we conduct our business around the world.

Henkel's Code of Conduct has been revised by the end of 2005. The core thoughts of the current version will be presented in the following:

1. Observing laws and social norms

Henkel is represented in many product markets and many regions around the world and therefore operates subject to the laws and regulations of different legal systems.

Being a good corporate citizen means that all employees of Henkel comply with all applicable laws, rules and regulations in the communities in which they operate, while also respecting local traditions and other social norms. A failure to do so could seriously damage Henkel's reputation and result in other negative consequences.

2. Individual responsibility for the reputation of Henkel

The regard in which Henkel is held is substantially determined by the behaviour and actions of each individual employee, irrespective of the position held within the Henkel organisation. Consequently, improper conduct, even on an isolated individual basis, can significantly damage Henkel. Personal integrity and an elevated sense of responsibility help all of us to decide which response is most appropriate in a given situation. Answering the following questions can provide guidance:

- Is my action or my decision in keeping with relevant laws, standards and norms, and with the values and standards of Henkel?
- Are my actions and decisions free from personal conflicts of interest in all cases?
- Will my decision withstand public scrutiny?
- Am I, through my behaviour, contributing to the reputation of Henkel as a company that maintains high ethical and legal standards?

3. Respect for people

Henkel's continued success depends upon our commitment to develop and utilize the diverse talents and energies of all Henkel employees, throughout the world. Employees and prospective employees are assessed based upon principles of equality and fairness.

We strive to create an environment of mutual respect, encouragement and teamwork. We value a sharing environment that provides the opportunity for open communications, continuous learning and diversity: these are the sources of our strength, today and in the future. Our goal is to provide a workplace environment that attracts and retains highly talented and motivated people, while helping them to achieve their full potential, without regard to their differences or similarities.

Each of us is responsible for creating a workplace environment that rewards high performance and a commitment to excellence, as well as an atmosphere of trust and respect: a productive work environment. We also recognize our obligation to respect the personal dignity and guard the privacy rights of all of our employees, customers, service providers and suppliers.

Henkel expects its employees, customers, service providers and suppliers to respect these principles.

4. Safety, health and the environment

Henkel and each of its employees play an active role in making the locations in which we operate a good place to live and work. Protecting people and the environment, and conserving resources, have long been counted among our core values. Henkel has been and remains committed to sustainable and socially responsible development; the promotion of safe and healthful working conditions; and striving for sustained progress in the fields of safety, health and the environment.

5. Conflicts of interest

We demand of ourselves, and those with whom we associate, the highest ethical standards. Private interests and the interests of Henkel must be kept strictly separate. Consequently, all employees should avoid situations that may lead to a conflict between their personal interests and those of Henkel. Henkel employees, during contacts with existing or prospective customers, suppliers, clients and competitors, must act in the best interests of Henkel to the exclusion of any personal advantage.

6. Corporate citizenship and donations

As a responsible corporate citizen, Henkel makes financial and material donations in support of social institutions, environmental initiatives, education, science, health, sport, art and culture.

Henkel has defined the criteria for donations and support activities within the framework of its international sponsoring concept.

The criteria applied in relation to donations are essentially as follows:

- Need;
- sustainable effect;
- transparency, i.e. the recipients and the specific purpose must be known to enable monitoring of the proper appropriation of donations;
- no donations to political parties;
- no donations or support for organizations or institutions that do not pursue generally recognized and accepted objectives.

7. Treatment of business partners, public officials and other representatives

We expect our suppliers and service providers to respect our ethical standards, including the principles of the Global Compact, and to act accordingly.

Within the marketplace, Henkel enhances its standing through the quality and value of its innovative products and services. We make decisions on the basis of known economic criteria, within the bounds of relevant laws, standards and norms.

We are honest in our dealings with others, obeying all applicable laws and corresponding regulations governing fraud, bribery and corruption, and avoiding even the appearance of a conflict of interest.

8. Market and competitive behaviour

Henkel and its employees are unconditionally committed to the principles of fair competition and must comply with the antitrust and fair competition laws of the countries in which Henkel conducts business.

Although accurate legal assessment depends on the complexities of the laws concerned and the individual circumstances of each situation, there are nevertheless forms of conduct that typically constitute a violation of competition laws:

- Agreements with competitors and coordinated behaviour aimed at or causing a restraint or limitation on competition are forbidden.
- Relationships with our customers, suppliers and also patentees or licensees are governed by a number of legal regulations relating to fair competition. In accordance with these laws and regulations, Henkel employees will not act in any way that would restrict a customers' pricing freedom or interfere with supply relationships with their business partners (geographical, personal or material restraints). Henkel employees will not encourage illegal tying and resale arrangements.
- Owing to its market position in relation to certain products, Henkel also has to obey certain special rules. For example, abuse of a dominant market position may be deemed to have occurred in the event of differentiated treatment of customers without material justification, refusal of supply, the imposition of inappropriate purchasing/selling prices and terms and conditions, or tie-in transactions without any material justification for the demanded additional counter-consideration.
- While attendance at and participation in trade and professional association meetings, on behalf of Henkel, may be important to further corporate objectives, it is also recognized that attendance at such meetings can present a potential antitrust/fair competition

risk due to contacts with competitors during the course of the meeting. Henkel employees shall attend only meetings of legitimate trade and professional associations, conducted for proper business purposes. It is preferable that meeting minutes be taken and made available. Any benchmarking or comparative information supplied must be in full compliance with applicable laws and regulations.

9. Protection of assets and safeguarding of competitively sensitive information

Within their sphere of activity, all employees bear their share of responsibility for the protection of the tangible and intangible assets of Henkel. Physical or tangible assets include property such as Company products, equipment, facilities, vehicles, computers and software, bank accounts, stocks and bonds, charge cards, files and other records. Intangible assets include informational assets, such as information developed by employees or agents of Henkel that is not generally known to the public (i.e. business secrets and/or know-how), industrial proprietary rights, technologies, and other items of information that are of value, important and thus needful of protection. Information provided by suppliers, customers and other business partners might also require protection.

In this context, IT security plays an important part. All employees are requested to use the information systems only in an ethical, legal and courteous manner and to use the provided security tools e.g. encryption and security procedures e.g. password handling to protect the Henkel data sufficiently.

10. Avoidance of contractual risks

Henkel takes its responsibility to contractual partners seriously. To avoid misunderstandings and unintended consequences, the risk management system of Henkel requires that all employees who bear responsibility for the conclusion of agreements and contracts shall, prior to such conclusion, perform a careful assessment of the contractual duties and terms and of the risks that could arise from such agreement.

11. Insider dealing rules

'Insider trading' laws and regulations do not permit a person to buy or sell Henkel securities, such as stock, while having 'inside' or confidential information. Inside information should not be shared with anyone other than Henkel employees who have a need to know it and who are aware of their legal obligations in handling this information.

In general, 'Insider information' is information that is not readily available to the public and that an investor would consider important in deciding whether to buy or sell Henkel stock. While it can be information that could affect Henkel's stock price, it can also be information that might affect the stock price of another company that has a significant relationship with Henkel. In such instances, employees and officers shall refrain from:

- any trades involving insider securities, in particular, Henkel securities,
- passing on such information to third parties, and
- issuing recommendations to third parties as to the acquisition and/or sale of insider securities on the basis of such information.

In order to eliminate even the appearance of a breach of the regulations governing insider dealing, so-called 'Blocked Periods' have been instituted. Within these periods, a specially designated circle of officers/employees who typically have access to insider information in the course of their activities are forbidden to trade in Henkel securities.

12. Financial integrity

In order to maintain the trust and respect of our shareholders, employees, business partners, communities and government officials, our financial reporting must be correct and truthful at all times. All records and reports published for external consumption must be prepared timely and in line with all relevant laws and regulations.

In keeping with existing legal requirements, as well as internationally recognized accounting standards, Henkel's assets, financial transactions, operating positions, and cash flows must be accurately recorded and openly reflected in the Company's records and public documents. We conduct business consistent with all applicable laws and regulations in every place that Henkel conducts business. We, the employees of Henkel, strive to do the right thing.

13. Reporting violations, enforcement, sanctions

The provisions of the Code of Conduct represent the fundamental components of Henkel's corporate culture. They should, however, not be misinterpreted as providing a basis for demanding that Henkel adopt a certain mode of behaviour. Employees who violate any laws, regardless whether they are subject matters of our Code of Conduct or other Company policies may be disciplined up to and including termination of employment. Henkel supervisors may also be disciplined for failing to detect a violation in their area if, in the judgment of the Company, the failure resulted from inadequate supervision of employees.

The Company will not discharge, demote, suspend, threaten, harass, or in any other manner, discriminate against an employee who reports a violation. Henkel will also not tolerate any attempts whatsoever to prevent employees from reporting such matters.

With the Code of Conduct we want to make it clear to all employees that Henkel's reputation depends on each individual employee. The Code of Conduct provides us with a management instrument that clearly defines our expectations in respect of each individual employee's behaviour. Henkel does not demand anything from its employees that is not comprehensible to every individual or that does not appear to be correct on the basis of common sense. I see business ethics at Henkel as an ethical expression of what is normal, reasonable and honest, of discipline and reliability. These are all virtues that should be self-evident.

CODE OF TEAMWORK AND LEADERSHIP

In order to intensify the connection with our vision and values, the Code of Teamwork and Leadership was revised at the beginning of 2005. The objective of the revision was to describe the behaviour outlined in the Code of Teamwork and Leadership more precisely. By concentrating on the essence of the code's principles, we were also able to define more practical guidelines. The more complex leadership is, the fewer the incentives and the less likely it is that one will see such guidelines implemented on a daily basis. However, for a community of values in a company, it is vitally important that such principles of action are lived out by every employee at every location worldwide. Only in this way can we further develop our culture of trust, mutual respect and tolerance.

The Code of Teamwork and Leadership consists of six crucial points:

1. Inspiring trust

Leaders establish a relationship of mutual trust, shaped by respect and tolerance. Conflicts are openly addressed in an objective and factual manner.

2. Setting targets

Leaders formulate and communicate clear direction and strategy. They work with employees to set ambitious employee goals jointly, including strategies, activities and means to accomplish the goals.

3. Assigning tasks and delegating decisions

Leaders ensure clarity of direction and responsibility, as well as clear decision-making processes. When assigning tasks, the leader carefully considers employees' skills and abilities. Both leaders and employees continually develop their knowledge and skills to produce lasting and sustainable quality and efficiency.

4. Convince and motivate

Leaders produce an atmosphere in which new ideas are created, evaluated and implemented and one where everyone performs to the full. In doing so, the leader takes responsibility for ensuring that all the necessary information and knowledge is available and that employees are positive and committed to achieving their targets. Individual skills are developed, diversity is valued and cultural differences are respected.

5. Achieving targets and evaluating performance

Leaders pursue targets and allocate resources in support of strategic objectives. They provide ongoing coaching and development for employees to enhance performance, jointly implement any necessary adjustments, and evaluate performance based on results.

6. Leading by example

Leaders are role models in setting and achieving targets and living the Code of Teamwork and Leadership on a daily basis. They are positive, future-oriented and results-oriented. Leaders promote performance through coaching, employee development and fairly evaluating performance based on results. They are responsible for the success of the company and those they lead.

These guidelines serve as a means of binding all Henkel employees in shared responsibility. This is not only true of the relationships between supervisors and employees. Each employee is asked to demand these guidelines. It is critical to foster a culture that provides explicit feedback on the quality of the perceived teamwork and leadership shown by all involved. Each employee is expected to treat others as he or she wishes to be treated.

CODE OF CORPORATE SUSTAINABILITY

In 2005 Henkel also revised its Principles and Objectives of Environmental Protection and Safety, expanding these to include aspects of social responsibility. The new Code of Corporate Sustainability defines the principles of sustainable business practice at Henkel.

We recognise the need to harmonise economic, ecological and social goals. Our products and technologies are designed to make a valuable contribution to society and to further and support sustainable development continuously in all countries in which we operate.

Based on this understanding, we conduct a continuous and open dialogue with all social groups regarding our past achievements and future priorities. Our policy of doing business in an ethical and legal manner is inseparably linked with respect for human rights and for the customs, traditions and social values of the countries in which we operate. We welcome and support the volunteer work of our current and retired employees in many different areas, as such volunteer work reflects our understanding of responsible corporate citizenship.

Sustainable development is a shared responsibility of the worldwide community. Acting on this conviction, Henkel has declared its support for the International Chamber of Commerce's Business Charter for Sustainable Development and the United Nations' Global Compact, and has joined the chemical industry's international Responsible Care® initiative.

The Code of Corporate Sustainability will help us to manage our operations successfully in a sustainable and socially responsible manner throughout the Henkel Group. We believe that economically strong and successful enterprises are essential when it comes to achieving effective protection of the environment and social progress. Henkel is an economically strong and successful company. Aligning our operations to the rules of the Code of Corporate Sustainability allows us to further secure and develop the strong positions we hold in our markets. Foremost, however, we will be able to increase Henkel's contribution to sustainable development.

Our Code of Corporate Sustainability deals with nine elements. These can be broken down into three major areas of action:

1. The first area describes what we expect in the future from our personnel and their importance for the company. This is clear, for instance, in the principle of 'Individual responsibility and motivation'. It means that every employee should identify with the aims of the company.

   'Treatment of business partners and market behaviour' is another important component of this first area. We want to ensure that Henkel behaves in a fair way in international competition and makes decisions in accordance with sensible economic considerations and in compliance with relevant legislation and standards.

   Ultimately, the principle of 'Open Dialogue' derives from our corporate value: 'We communicate openly and actively'. We engage in dialogue with all our stakeholders, i.e. with employees, shareholders, customers, suppliers, neighbours and all other interest groups.

2. The second major area of action concerns our responsibility to run our plants and production processes safely. This relates not only to new processes and efficient production facilities, but also to transfer of technologies and knowledge within the Henkel Group. In this way we can specifically improve the safety and efficiency of products, plants and production processes. This is the only way to ensure that our overriding aim is achieved – the long-term success and continued existence of the company.
3. The third major area in the Code of Corporate Sustainability describes how business processes must be designed in order to implement these requirements of sustainable development efficiently. The principle of 'Management systems for clear responsibilities and continuous improvement' is also relevant here. Using integrated management systems, we implement standards throughout the Group and clearly assign responsibilities at all management and work levels.

PROCESS OF IMPLEMENTATION

If business ethics is to be employed as a management instrument, it requires conscious planning and implementation to ensure success.

For Henkel this process began with the spin-off of Cognis in 2001. With the disposal of the chemical sector, Henkel moved out of one of its substantial business activities and took a decisive step in its strategic repositioning. Accordingly, the business activities now focusing on brands and technologies needed to be captured in a new corporate vision for Henkel.

Following the redefinition of the corporate vision, the next step was to further develop the values and the Code of Conduct at Henkel as implementation guidelines for employees. Since the corporate values and the Code of Conduct were intended to be valid globally, this meant including legal regulations from numerous countries as well as taking a wide range of customs and conventions into account. To achieve this, Henkel uses an iterative process controlled by a steering committee consisting of representatives of the human resources department, corporate communications and the legal department and supported by management. The process also involves members of the Sustainability Council, who are an integrated part of Henkel's R&D departments, and representatives of internal auditing.

External developments, such as the addition of Paragraph 10 to the Global Compact (proscription of bribery), are relevant, too, especially if (as in this case) they are sustainable and valid globally.

Although planning and implementation can be separated from each other, early communication of the corporate vision and values at Henkel ensured that the discussion of the Code of Conduct was more focused, efficient and ultimately more valuable. This part of the process also entailed more intensive communication with employees in the various countries concerned in order to comply with cultural and legal requirements. This project alone took more than a year at Henkel and was completed once the final formulation of the Code of Conduct had been adopted.

To implement the Code of Conduct, Henkel does not only make use of multilingual translation, brochures and explanations on its homepage and other media. As we have learned in the past, the process of implementation is all the more successful if supervisors and employees discuss the revised Code of Conduct among themselves. Since the rules and guidelines are of a more general character, it becomes even more important to illustrate them with relevant examples appropriate to the specific location and culture. This also implies that management must constantly lead by example and serve as role models by acting in a manner always consistent with Henkel's corporate values and the Code of Conduct.

The same is true of the Code of Teamwork and Leadership and of the Code of Corporate Sustainability. The classical media were not the only way of communicating the Codes: the corresponding documents were made available to all supervisors worldwide so that the Codes could be presented to and discussed with employees. Furthermore supervisors were asked to derive concrete cooperative projects from the Code of Teamwork and Leadership.

CONCLUSION

The objective of Henkel's business ethics is to establish a framework for entrepreneurial action. When Henkel's employees embrace this framework, it becomes omnipresent throughout the company. It offers guidelines that do not always require detailed instructions, but allow room for individual initiative and entrepreneurial thinking, while ensuring that every employee has a clear understanding of ethical values and corporate goals.

By ensuring that its employees are aware of the importance of the company's values, Henkel's business ethics also pursues other objectives:

- legal compliance;
- leadership aligned with the company's objectives; and
- marketing that is outwardly focused, on stakeholders and shareholders.

Thus Henkel's business ethics plays a major role in securing Henkel's future in an increasingly complex and ever more rapidly changing world.

Ethical behaviour pays off in the long run, through improved public reputation, higher employee motivation and greater focus on pursuing the company's objectives.

The extent to which business ethics can contribute to a company's success ultimately depends on the company itself and its commitment to consistent implementation and use of ethical value systems. Our experience suggests that only an open corporate culture and an ethically value-driven management that leads by example will be able to respond successfully to the challenges of an increasingly globalised world. This in turn requires a stronger personal ethos, a sense of belonging to an ethical, global community, which is the very foundation of the global economy. The trend toward individualism will undoubtedly continue. All the more reason for us to encourage a revival of the sense of responsibility and the sense of duty – for the sake of our companies as well as for our society.

CHAPTER 19

A Company's Social Side

Markus Holzinger, Klaus Richter and Dirko Thomsen

Over the past decade corporate social responsibility has been launched as a practical programme in many multinational companies.

Managers cannot be expected to ignore business rules and profit, of course. But a number of leading companies believe in the values of social responsibility and public trust. In their view, it is a mistake to justify the company's existence merely in terms of profit. Firms have discovered that moral problems are economic problems, be they the need to deal honestly with employees, suppliers and customers or the emphasis on environmental protection and responsible behaviour towards people in developing countries. 'Corporate social responsibility is now an industry in its own right, and a flourishing profession as well' (*The Economist*, 2005).

The main thrust of this chapter is the process of corporate social responsibility at Volkswagen. The text is divided into three parts. The first part contains a description of an assortment of

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responsible business practices generally implemented at Volkswagen. The second part questions historical responsibility. The example of the Memorial Work project exemplifies the management ethos of corporate social responsibility at Volkswagen. Finally the chapter addresses the question of learning business ethics. Learning has been a hot topic with managers. The background and the content of the module 'Corporate Ethics and Corporate Government', which has been developed at Volkswagen AutoUni, is explained.

CORPORATE SOCIAL RESPONSIBILITY AT VOLKSWAGEN

When companies strive to align their economic objectives with sustainable growth and human progress, this is referred to as corporate social responsibility (CSR). CSR is all about a company's responsibility to the local community and society at large. That includes attitudes towards human rights, the interests of the workforce and suppliers, and commitments to society. Volkswagen takes the view that for corporate social responsibility to become a reality, an ongoing increase in shareholder value must first be assured and that the long-term success of the company can only be guaranteed through corporate social responsibility.

In the early 1990s, Volkswagen reorganised its working-hour model to make it what is sometimes called a 'living company', thereby safeguarding over 30 000 jobs in Germany. This was made possible by the workforce's willingness to work longer hours when order books are full and shorter hours when work is in shorter supply. Wage levels were largely maintained. To provide long-term job security, Volkswagen has opted for what is known as a public–private partnership. The project concerned is called 'Autovision' and it fosters employment levels and growth, promotes change in regional structures, and encourages corporate relocation, spin-offs and training schemes. Since the project began in 1998, 4000 new jobs have been created in the Wolfsburg region alone.

Furthermore, the principles of sustainable development (see below) and environmental protection form an important part of the corporate culture at Volkswagen. A development process designed to bring lasting ecological and social benefits for both the company itself and for society as a whole is under way at the Group's various production sites. Thus, one priority objective in the product development sector is to cut average corporate fleet fuel consumption by 25 % between 1990 and 2005, thereby also reducing carbon dioxide emissions. By 1998, a 15 % reduction had already been achieved. In Germany, Volkswagen operates a recycling system to take back waste and residues from production plants and workshops, free of charge. All of the Group's European plants have been certified in line with EMAS[1] since at least 1995 and regularly conduct environmental audits. Lifecycle assessments are systematically performed as a product-specific element of the environmental controlling process. The company can thus continuously improve its fuel consumption and emission levels, its choice of raw materials and its recycling quota. The Group's ethical and social principles apply worldwide.

Actively involved in the Global Compact

In 2000 at the World Economic Forum in Davos, Switzerland, the Secretary-General of the United Nations (UN), Kofi Annan, called the Global Compact (GC) into being, bringing together private-sector multinational companies, UN sub-organisations and

[1] Abbreviation for Environmental Management and Audit Scheme. The statute (no. 1863/93) describes the guidelines for voluntary participation by commercial companies (from certain sectors of industry) in the European Union's unified system for introducing environmental management systems. As a more far-reaching version of ISO14001, it can be linked to an existing management system but requires, for example, the publication of a regular environmental declaration. EMAS guidelines relate to specific locations, ISO guidelines to the company as a whole.

representatives of governments, trade unions and non-governmental organisations (NGOs). The starting pistol was fired for the operational phase of the Global Compact in July 2000 in the course of a United Nations event in New York. The Compact is intended to be a value-oriented platform to serve learning, transparency and dialogue. It aims to encourage the participating companies to act responsibly towards society in social and ecological terms, i.e. to be a 'good citizen'. Initially, there were nine principles, including respect for human rights, non-discrimination in the workplace, the rejection of forced labour and child labour, the acceptance of the right to collective bargaining and conscientious environmental behaviour. An anti-corruption principle has also since been added.

Responsibility for complying with the principles contained in the Compact rests with a company's management. However, this will still not be monitored. The only obligation on the companies is to list their activities for the Global Compact objectives in a periodical progress report. As no specific preconditions are required for participation in the GC, it is astounding that only 1700 of the approximately 70 000 transnational corporations worldwide are participating in the Compact. Of these, 28 are German. The Volkswagen Group stated its commitment to the Global Compact at the 2002 World Conference on Sustainable Development in Johannesburg. A brochure on the subject was published and is still very much in demand. With the Group environmental policy, which commenced in 1995, and the 'Declaration on Social Rights and Industrial Relations' issued in 2003, Volkswagen is still complying with the 10 principles of the Global Compact at an extremely high level. The organisations and companies involved in the initiative exchange information at events known as Learning Forums. Volkswagen uses these forums, in so far as it is able, just as regularly as the 'Policy Dialogue'. Dialogue also takes place at the highest level. The Board of the Volkswagen Group is informed regularly about developments in the Global Compact and knows what demands are made of our company. However, Volkswagen is also directly involved, namely via the regular cooperation of the Group's external relations department in the German network, Friends of the Global Compact. Volkswagen participated actively in the debate on the acceptance of the tenth principle, i.e. counteracting corruption, and permit AIDS assistance projects in South Africa and Brazil to be investigated within the scope of so-called case studies. It is a matter of course to report regularly on the activities of the UN Initiative in the political news magazine, *p:news*, and maintain an Internet presence at www.globalcompact.org.

Model of sustainable development

In the explanatory text formulated on the Global Compact, Volkswagen developed a model of sustainable development, as aforementioned, on the occasion of the World Summit in 2002:

- At Volkswagen, the model of sustainable development is the benchmark for a long-term corporate policy that not only tackles economic challenges but also addresses ecological and social issues.
- Together, commercial success, far-sighted environmental protection and social competence enhance the Volkswagen Group's global competitiveness.
- The Volkswagen Group develops, manufactures and markets automobiles and services throughout the world in order to provide its customers with attractive solutions for their personal mobility.
- Volkswagen aims to make advanced technologies available around the globe while taking account of environmental protection and social acceptability considerations.
- Along with economic success, the primary objectives of Volkswagen's corporate policy include continuously improving

the environmental acceptability of its products and reducing its consumption of natural resources.

- Volkswagen is a company with German roots, European values and global responsibility. The rights, personal development, social security and economic participation of its employees are core elements of corporate policy.
- A spirit of cooperation and partnership forms the basis of successful collaboration between management and employee representatives – in Germany, in Europe and around the world.
- For Volkswagen, globalisation is a decisive factor in securing international competitiveness and safeguarding the future of the company. Modern and responsible corporate policy is responsible for making globalisation at Volkswagen environmentally and socially compatible. This same policy serves the long-term interests of Volkswagen's customers, stakeholders, employees and partners. Globalisation must not be based on exploitation.
- Volkswagen also actively promotes an environmentally and socially compatible approach to business among its suppliers.
- Wherever it operates, Volkswagen considers itself a partner of society and the political sphere.

Corporate values and guidelines: the basis of a new company culture

A set of seven company values and 14 company guidelines now stand for nothing less than tomorrow's company culture. The project was started at a meeting of Volkswagen senior managers in Shanghai in September 2002. This was not undertaken by external consultants, as is frequently the case today, but rather study groups of managers compiled the guidelines themselves. The result is a list of seven values, each having two guidelines intended to characterise future dealings with each other and with customers. Dr Bernd Pischetsrieder, chairman of the board at Volkswagen AG, raises it to the level of a constitution for the group of companies and its brands: 'If different groups of people found a state so that they are stronger and more successful together, they must establish what the common factors are. And then they must all abide by the constitution.'

So what characterises the Volkswagen Group, where are its strengths and what needs to be improved? According to Pischetsrieder, the essential thing is to maintain and extend two really great strengths across all the brands and companies: competence and enthusiasm for our products plus respect for the human dimension.

The details of the set of company values are as follows:

CLOSENESS TO THE CUSTOMER

The idea is to allow exemplary orientation towards the customer to grow out of traditional closeness to the customer. Pischetsrieder: 'Each of us should get to know our customers better, be interested in their motives, understand their habits and needs.' For example, by undergoing training at a dealer's premises.

MAXIMUM PERFORMANCE

Each one of us makes high demands of himself; this is the only way to achieve first class results. And: each one of us bears the responsibility for his own ability to work and employability and is supported in this by the company.

CREATE VALUE

Everyone must act in such a way that value in the group of companies is increased. Time, money and energy are only invested in activities that create value.

ABILITY TO INNOVATE

Carrying ideas right through the company with courage, toughness and persistence is just as important as the idea itself. Each employee should engage in a personal struggle to promote his ideas and should be open to the ideas of others. Pischetsrieder: 'Success is the greatest enemy of innovation. Only good employees with courage, creativity and imagination can counteract this.'

RESPECT
Respect for the work of others is essential for lasting success. Furthermore, the hierarchy only corrects decisions on competence in exceptional cases. Managers are required to find employees with the potential to outstrip them.

RESPONSIBILITY
Offering either too much or too little leeway is irresponsible. Courage, creativity and imagination are important prerequisites for using this room for manoeuvre. Pischetsrieder: 'Responsibility includes our relationship with the employees just as much as our relationship with the environment.'

SUSTAINABILITY
It is essential that the company takes the long-term goals it has approved into account in its daily work. Managers have the means and the duty to think beyond day-to-day issues and to organise.

For Volkswagen, social responsibility is a permanent challenge. Through numerous projects and innovations the company has shown how social, environmental and economic success can be combined with each other. Volkswagen belongs to Germany and Europe's pioneers in corporate social responsibility management. The company is co-founder of the corporate network 'CSR Europe' and its influence has been decisive in shaping this issue.

HOW DOES MORALITY COME INTO PLAY IN CORPORATIONS?

Why should morality play a role in corporations? According to traditional economic theory, society profits most from entrepreneurs when they pursue their particular interests. Regulated by the invisible hand – so the theory goes – this pursuit of their own entrepreneurial interests will ultimately serve the public interest as well. In that case, calls for moral integrity only appeal to this 'invisible hand', so that deliberation on morality ought to be left to private individuals and policy makers. We come across this same kind of exclusivity in the field of humanities in teachings stipulating that an action must be taken with no regard to self-interest if it is to be deemed moral.

Anyone reading a newspaper report on a large corporation's good deeds is likely to feel a twofold sense of conflict. If he has shares in the company, he will possibly appreciate the anticipated positive effect of the act on potential sales, but will inevitably ask himself if the intended aim could not be better achieved by way of sales promotions. If he views the report from a strictly moral standpoint, he will welcome the act while nonetheless invariably feeling that it smacks of economic self-interest, which ultimately detracts from its merit. Corporate ethics will never satisfy the purists.

Any attempt, therefore, to resolve the conflict between morality and commercial enterprise by means of exclusion, i.e. the exclusion of economic objectives or, conversely, the exclusion of public interests, is doomed to fail. It must be said, however, that the conflict between economics and morality is rooted more in the theory-based endeavour to achieve a theoretical basis, with as few conditions tied to it as possible, for the new economic teachings of an Adam Smith or the critical philosophy of an Immanuel Kant rather than being rooted in actual practice. Indeed, in practice, it has proven sensible not to categorically separate the two, but rather to link morality and enterprise. The Volkswagen example demonstrates the opportunities for corporate social responsibility inherent in a non-dogmatic and realistic treatment of the relationship between commercial enterprise and public welfare.

If we take a look at everyday practice, however, we can see that corporate social responsibility is not an issue devoid of problems. Needless to say, businesses will always attempt to gain a good reputation in the community where their customers and other groups they interact with are based. There is no significant difference between the reputability of the traditionally esteemed Hanseatic merchants and today's global players, for good reputation is one of the elements of product value and determines how much a customer is prepared to pay. In this respect, corporate social responsibility subscribes to the same commercial codes of practice as those of traditional merchants.

To be content with that, however, would mean applying morality too frugally. As so aptly portrayed in Molière's *Tartuffe* or Wilhelm Busch's *Hypocritical Helen*, good deeds demonstratively put on display will make people suspect hypocrisy and will thus have the opposite effect to that intended. Much the same goes for external pressure on corporations (in the form of regulations or customer boycotts, for instance) to act ethically. The issue here is not one of morality, but revolves instead around the distribution of power among the state, consumers and commercial enterprise. A morally relevant act is characterised by the fact that it is voluntary, i.e. optional.

The relationship between morality and success is not a causal one. When we look back at the lives of the morally good people we know, the picture that often presents itself is one in which virtue, recognition and affluence evolved over time and were not initially based on deliberate calculation and a desire to control the outcome. Striving for virtue as a means to achieve fortune and popularity will only reap the distrust of others. This is what happens to organisations that display a newly acquired sense of morality too quickly and too demonstratively. We prefer humility. In our particular context, 'doing good and talking about it' can serve only as a slogan for those who wish to solicit business sponsorship.

Volkswagen runs an educational measure which could be described as a corporate social responsibility scheme. However, it was never intended to be instrumentalised for PR purposes. That is why our 'Memorial Work' project in Auschwitz/Oswiecim could serve to exemplify plausibly how best to loosely tie in economic goals with corporate social responsibility.

When Volkswagen first began to look back and examine the history of its founding during the Nazi era, this undertaking presented no opportunity whatsoever for generating a competitive advantage. Correspondence received from Volkswagen dealerships and from buyers across the different world regions in 1986 urged us not to make a public affair of examining the history of the Volkswagen works during the Third Reich, given that the competitive disadvantages appeared all too clear.

Concerns about memories of the company's entanglement in this era and fear about incalculable reverberations on the market initially outweighed any confidence in our own intellectual and moral resources. Critical preoccupation with our own history involved risks for the owners, for management and for the workforce – especially given that this course meant a shift away from the consensus of refraining from raking up the past, which had characterised the post-World War II era until that time.

Since the mid-1980s, however, there had also been positive signs indicating that a shift of this kind would actually be a constructive phenomenon. On the occasion of its centennial anniversary in 1983, Daimler-Benz published a company history in which the era of the Third Reich was scarcely mentioned – receiving a unanimously critical response from the public and the media in Germany. Volkswagen's 50th anniversary (and likewise the anniversary of the City of Wolfsburg) was due to be celebrated in 1988. In a project headed by Klaus-Jörg Siegfried, the city archive had recently published two books on the history of the founding of the Wolfsburg community (Siegfried, 1988, 1993).

Thus, Volkswagen could expect the topic to be greeted with acceptance when the Group placed review of and discourse concerning its own past fully into the public domain in 1986, entrusting work on this to academics at the University of Bochum and Professor Hans Mommsen. This history of the company's foundation (Mommsen and Grieger, 1996) comprised 700 pages and provided the basis for a whole range of strategies for solutions in

1992 regarding humanitarian aid for the countries of origin of those forced to work at the plant during the war, individual compensation awards for forced labourers in 1998, and, likewise, construction of an international youth centre in Auschwitz in 1986.

Only extensive and public reflection on the scholarly, financial, legal and pedagogic dimensions of its history endowed the company, its executives and its workforce with the self-confidence needed to pursue the sensitive issues surrounding the organisation's own history.

One of the circumstances particularly conducive to Volkswagen's Memorial Work scheme was the fact that the company already had 20 years of experience with international youth exchange work under its belt. After World War II, the majority of the population in Wolfsburg – a community situated close to the 'Iron Curtain' – was made up of exiles from various regions now in Poland. Since integrating young people into the West was a concern for the company as a whole, these sections of the population were the ideal bridge to the East, a bridge to help us understand our Central European neighbours better.

Confidence in Auschwitz as a place of learning was also determined to a substantial degree by our cooperation partners, most notably the International Auschwitz Committee and its vice-president, Christoph Heubner, who came up with the concept for the gradual development of Volkswagen's pedagogical commitment in Auschwitz and oversaw the scheme from the first seminars held in 1987 to the maintenance work performed since 1992, and the joint projects and exchanges between Polish and German youth groups in Auschwitz and at other locations in Germany. Our Memorial Work project is a living scheme, shaped by the past while subject to evolution. Thus, it functions more like a self-organising system than a blueprint for achieving a particular target.

Here is a summary of the Memorial Work project in its current form: around 55 apprentices and trainees from Wolfsburg, Hanover, Emden, Braunschweig, Kassel and Zwickau do voluntary work at Auschwitz alongside students from schools in Bielsko-Biala, Chocianow and Polkovice. This work involves repairing fences or exposing roadways at the camp to reveal items such as spoons, shoe-heels, cigarette holders or coins. Over the course of 14 days, German and Polish adolescents share their lives with each other – at work, at home and at the International Youth Centre in Oswiecim/MDSM. They also take part in discussions with former inmates and peruse the archives with the aim of gaining insight into the lives of the victims and the perpetrators. They pitch in and help, building a gate, laying electric cables or installing a pneumatic test-bed wherever their professional skills are called for – at the centre, at the partner school or anywhere around town.

The Memorial Work project also involves a five-day return visit by Polish participants to the site where the German apprentices work. In addition to meetings and celebrations, these visits include discussion of the results of the participants' own memorial work, i.e. the personal significance of the assignment to the students and apprentices, the response they encountered from their families, friends, casual acquaintances or co-workers.

The cooperative work on individual assignments provides insight into an unfamiliar working world, while discussions and parties reveal differing patterns in the upbringing of both nationalities: 'The Poles aren't as . . . as I would have thought.' The project increases participants' sense of commitment to community work as well as helping to build self-esteem, e.g. when an apprentice realises that someone is waiting for his work. Apprentices looking back on what has been jointly accomplished in the course of the project clearly see how it has helped them develop as individuals. The apprentices acquire increasing reserves of tolerance and compassion as the work they do together culminates in success, as they find pleasure in their communal life and as their interest in the lives of their foreign co-participants develops.

Notwithstanding the retrospective success of the scheme, the concept does require explanation, since the reasons for its success are, likewise, reasons for the criticism it receives, i.e. the close proximity of corporate interests and the memorial work. How can morality and business be brought together at a site like this? While this is an essential question in academic terms, the question hardly arises in practice (Thomsen, 1999).

With a view to everyday practice, the proximity of the corporation first of all safeguards the life setting for memorial work as a link to the working world, to parents, friends or interest groups. Integration of this kind protects the site from 'museumification' and 'historification'. The proximity of the corporation means the Memorial Work project may not always be endowed with the 'political correctness' associated with seminar and school undertakings. It does, however, provide the actual pedagogical challenge of the project in the form of everyday conflict situations with colleagues, in the workplace and in recreational settings.

In this context, the organisation stands for a world where humanitarian principles must first be tested, especially in competition situations likely to arise in working life and on the job market. The organisation can provide the elements for a memorial that will help to turn good educational theory into an effective education course for adolescents. Taking a brief detour into the history of literature, we find that developments in positive educational novels always steer the reader to 'active' life concepts – Goethe's *Wilhelm Meister*, for example, or Gottfried Keller's *Green Henry*. The opposite path of societal education, on the other hand, is a very restricted one.

The company can also make use of the opportunity to moderate and defuse the competitiveness of life for the duration of the project – for one thing by producing comparative benefit: building inexpensive pneumatic test stations for a school or fitting an electric gate for the international youth centre. Thus, the youths learn that the know-how acquired in their working lives is useful outside the organisation as well.

The relationship between commercial enterprise and this kind of memorial work is eased further if we become aware that, in our context, the moral subject actually taking the action is not the corporation as a legal entity. Moral actions can only be taken by individuals within that entity. Just as church dignitaries are not forced to act according to religious motives, executives or other members of the workforce are not necessarily obliged either to act for reasons of economic interest. Realising that, irrespective of any theoretically based comparison of corporations and society, the individuals who people corporations are the same as those who people societies constitutes a bridge in the conflict between morality and business. Each and every employee is also a citizen, a parent, a child or a bowling buddy. It is imperative, therefore, that we address personal engagement in the workforce on a broad level where activities relating to corporate social responsibility are concerned, rather than confining intellectual justification for such activities to the decision-making competencies of the legal entity we call The Corporation.

The Memorial Work project bears fruit by affording participants practice in handling their own freedom in sensitive situations. The young people taking part learn to make independent judgements, they become aware of the impact history has on them and on their environment. They experience growth and the fact that it changes them – and, indeed, realise that this change arises solely from their own, independent thinking and doing. Many of the participants in the scheme end up committing themselves long-term to projects in Germany or Poland. In those cases, putting corporate social responsibility into practice will have literally achieved its self-imposed aims, with the corporation providing answers to the challenges facing society.

It is also possible to acknowledge a corporate social responsibility activity such as the Memorial Work project in the context of overall human resources development. Since corporations have stopped concentrating their entire focus on cheap labour and costly material investments, the workforce has no longer been expected to relinquish its brains, values, talents and inspirations (at least those not 'under contract') at the company gate. Instead, the organisation is undertaking development measures aimed at building and utilising all this positive potential, in spite of the possibility that those possessing such potential may eventually choose to leave the organisation.

Thus, the company stops being an isolated system concealed behind high walls. Social indicators and reference values penetrate into the company; conversely, the organisation radiates out into its social environment. In former times, this would have been interpreted as a worst-case scenario, a loss of planning control. These days, we are obliged to see this circumstance as an opportunity. Corporate social responsibility is one way of making creative use of such an opportunity.

And, on a final note, memorial work also refines the organisation's survival skills, since companies (as A.O. Hirschman illustrated in the 1960s) do not, as a rule, behave differently from political parties, interest groups or families. In economically good years, their performance tends to deteriorate. Conversely, however, this means that they have the potential to learn in times of crisis rather than being pushed out of the market by stronger competitors. Whether a learning process of this kind can lead an organisation back to its previous market strength will then depend considerably on the loyalty factor and on customer and employee opposition. This blend – of loyalty towards the 'Volkswagen family', on the one hand, and the capacity for critical opposition, on the other – has evolved out of the Memorial Work project (among other things). By the same token, the company itself also enjoys increased customer retention.

We can say that the Memorial Work project has played a significant part in shaping the company and learning culture at Volkswagen, as well as helping to build the individual characters of young employees. This is something we can establish in retrospect. Affirmation for our scheme would probably be less forthcoming today, however, if the Memorial Work project had actually set out in pursuit of this very objective in the first place. Irrespective of all its very real significance for the company's value, morality in the organisation cannot be clearly pinpointed. It is only because it cannot be planned and is not comfortably at home in liberal economic teaching nor enforceable by means of ethical rigour that it can impact positively on the company, on adolescents and on the society in which they live.

CORPORATE ETHICS AND CORPORATE GOVERNANCE MODULE AT THE VOLKSWAGEN AUTOUNI

Events perceived as crises, such as the destruction of our environment, massive cases of white-collar crime and the failure of the global economy to eradicate worldwide poverty have led, in particular, to calls for business ethics. We repeatedly find that business is not, as so often presumed, totally isolated from moral concerns. The new managerial approaches build on employees adept at reflection and communication, who are creative and who put their entire personality into what they do. Given the growing importance, at the operational level, of 'increasing managers' awareness about issues of value management in transcultural competence training courses' (Zimmerli and Palazzo, 1999), the Volkswagen AutoUni has designed a module for 'Corporate Ethics and Corporate Governance'. From the outset, it was clear in this module that corporate ethics has to 'deal with the rocky terrain of everyday corporate management . . . if something is to budge' (Jäger, 1992: 273).

The Volkswagen AutoUni

The Volkswagen AutoUni serves as a skills and cultural forum for the Volkswagen Group's technical and managerial elite, and aims for comprehensive development of the student's character and competence. It has developed into an educational institution recognised the world over, with broad-based research and instruction and a strictly postgraduate orientation. The Volkswagen AutoUni offers science-based continuing education in the interest of lifelong learning, and, following state accreditation (application currently being processed), will award internationally accredited academic degrees. The institution will set a new course in postgraduate education in Germany by expanding the previous concept of the 'corporate university'. It owes its special profile to taking the phrase 'corporate university' at face value; unlike the German state universities, whose scientific approach it uses as a basis, it is also *corporately* oriented. Constantly updated content provides a direct connection with the company (note the educational principles based on 'real cases'). In contrast to other corporate education institutions, however, the AutoUni will be a real university. The innovative forms of generating and disseminating knowledge developed through the corporate link are combined with an academic background. By interlacing economic practice, a source of numerous research issues, with scientific theory construction and applications, often lacking in real-world case studies, new knowledge potential for the Group will be revealed and lead to new forms of knowledge.

All courses are interdisciplinary. It appears increasingly certain that individual disciplines cannot fully grasp the complex world in which we live. Multidisciplinarity in the sense that the Volkswagen AutoUni is a scientific methodology promoting the plurality of perspectives in a productive dialogue and finally leading sustainably to higher quality solutions through syntheses. The basic standpoint of the Volkswagen AutoUni is that no subject can be fully tackled by a single discipline any longer, and that no problem can be assigned to a single department since the issues in the real and very complex world of today cannot be adequately addressed by isolated disciplines and specific departments.

The structure and contents of the module are geared to the specifications of the VW AutoUni. Concretely, 210 hours are allocated to each module, with a third of the learning units being taught in face-to-face taught classes and two-thirds online. Practical discussions of 'mini-cases' treat specific content in more detail.

As a branch of applied ethics, corporate ethics is not limited to the discussion and presentation of current theoretical disputes, but seeks answers to concrete issues in the context of economic activity. The aim is, therefore, to point to models for action and methods of corporate ethics using suitable case studies as illustrations.

Case studies, group work and discussion rounds reinforce participants' fundamental moral attitudes and social skills. The point is to increase people's awareness of ethical issues and promote creativity in order to open up new dimensions for possible approaches.

Leadership by character

The corporate ethics and corporate governance modules aim to increase managers' awareness of ethical issues in business. The initial level considers the new management self-concept. On the one hand, this self-concept is directed at deflating the myth of market self-regulation. Behind this myth is the belief that the market as a medium of social interaction already has moral content. 'The social responsibility of business', writes Milton Friedman (1970), 'is to increase its profits.' On the other hand, there is a presumption that one dimension of society, namely, coordinated agents acting solely in accordance with economic and instrumental reason, is not beset by ethical problems. As matters of social fact stand, however, this is patently not so. In industry, as in politics, one corruption scandal follows another in rapid succession.

Today's corporate leaders are not by any manner of means guided exclusively by economic and technological relationships.

Leading has become 'leading by character'. 'Go-getter' management has been superseded by the approaches of 'value management', which consciously aims to shape the company in relation to values. Management must be enlivened much more through the exemplification of ethically guided conduct with corresponding content. For these leadership characteristics, a manager has to have a sense of his or her own character.

At this point, the module explicitly discusses issues concerning leadership values. What types of conduct inspire confidence among followers of leaders? Participants define the value conflicts and dilemmas encountered in their everyday work. In order to discuss the provocative claim that leadership could also be viewed from the perspective of providing a service, we invite an abbot from Andechs Monastery to speak on 'Serving instead of ruling. A comparison between the organisational and management cultures in companies and monasteries'.

Corporate ethics at the organisational level and in society

The module is not restricted to the level of the individual, however. While individual ethics deal with individual actions and attitudes, institutional ethics and the development of social, economic, political and, in particular, legal structures are at issue at the organisational level. 'If you want an ethical code to prevail, you have to institutionalise it' (Bowie, 1992: 341). We discuss the role of codes of conduct. Module participants research the current in-house status of VW's corporate guidelines. What does it mean for a company that a common identity has to be brought to life? Can corporate values provide a foundation on which the company can build its identity and, thereby, a positive prevailing mood?

Here it is important to analyse and assess the different manifestations of corruption. Participants interpret the Enron scandal, for example. It becomes clear that the addiction to profit of individual managers is not the only cause of corruption-related disasters. Often, failure of the value systems and control mechanisms has a much greater impact. Evidently, corruption always emerges 'where the economic and civic virtues of individuals are "weak" ' (Ulrich, 2001: 322). Agents must be interrelated through a system of checks and balances.

Especially now that companies operate in the public eye, tainted fish or oestrogen in meat can lead an entire industry to ruin. Via an extensive and highly complex network of intersecting international, national, regional and municipal forms of communication, the public keeps track of industrial environmental scandals. 'The fragility of shareholders' and consumers' trust reveals the fragility of the legitimisation of globally operating corporations' (Beck, 2002: 130). Using the examples of Nike and Shell, we draw attention to the role of social responsibility on the part of global corporations and convey the sense that values give a company character.

Global ethics

In the age of globalisation, corporate ethics can no longer be limited to the narrow territory of the nation state. According to the corporate social responsibility approach, global corporations should pursue not only profit but a civic interest in political guidelines as well. Companies are expected to assume social responsibility in the cultural and political contexts in which they are based. If a company has cars built in China, then the work environment in that country becomes a matter of direct concern for that company's moral commitments, especially in the case of child labour.

Participants receive information on CSR management at various companies, analyse the differences between the programmes and try to relate these differences to those between countries and cultures. Cultural globalisation is not a uniform or consistent process. Corporate values can have very different political and cultural meanings in societies (Scherer and Steinmann, 1998). Given this insight, module participants study the relation between ethics and culture and consider the conflicts that can arise in a manager's everyday work.

It then becomes clear that the global arena constitutes the decision-making framework for contemporary management. Wherever managers operate, they must also assume responsibility for the consequences of their actions, particularly concerning other people and, indirectly, the environment as well. As the arena of economic activity becomes global, so does responsibility.

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CHAPTER 20

In the Driver's Seat: Implementing Sustainable Management Around the Globe

Katja Suhr and Andreas von Schumann

SUSTAINABLE MANAGEMENT – A HISTORY WITH A FUTURE

Sustainable management has become a widely publicised buzzword. But what is it all about? What does sustainable management offer a company in addition to its communicative function?

Sustainable management focuses on an investment's effectiveness and ability to shape the long term. The goal is to contribute to shaping the prospects for progress, and hence for social evolution, in the medium and long term. Sustainable management means

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creating and consolidating future-proof management structures. Any company intending to invest in a location in the longer term is concerned about a stable environment. Questions of the qualification of local staff, quality of global suppliers, opportunities and risks of technology transfer, infrastructure and the political situation play an important role.

A cursory glance at economic history is sufficient to see that successful companies have always helped create durable structures in their environment. In the course of globalisation, however, new dimensions of structure-creating and sustainable management have evolved. First, a company's radius of action expands with advancing global networking and group formation. Second, there has been a sharp increase in the momentum of commerce at both national and international level, evident not least in faster market development, shorter product cycles and faster evolution of target groups. In addition, modern communication technologies like the Internet and mobile telephones make global exchange of information at a much faster rate possible.

In times of change, dynamism and increased pressure to adjust, it is easy to lose sight of the long term. Attention is concentrated on short-term success and seizing 'opportunities'. Issues that require staying power and unexploited potential are subordinated to the supposed need for a fast and flexible response. Sustainability strategies run the risk here of languishing as costly instruments of corporate communication instead of providing guidance as a critical success factor in a company's risk management and the management of its corporate environment.

The relevance of sustainability aspects within overall strategies is generally acknowledged nowadays. However, the ability to implement a visionary corporate policy efficiently, effectively, and at the same time pragmatically at different times and in different locations, remains a competitive advantage only a small number of companies actually utilise.

SUSTAINABLE MANAGEMENT BY INTERNATIONALLY ACTIVE COMPANIES: THE OPPORTUNITIES ARE THERE!

With its many facets and approaches, sustainable management offers many opportunities to companies. These range from:

- cost optimisation by reducing raw materials through
- creating employee loyalty by health care and training and
- quality assurance by qualifying suppliers to
- developing new market potential in developing and emerging countries.

But what does sustainable management look like in practice among globally active companies? What are its success factors?

In cooperation with Thomas Häusle and Alois Flatz, cofounder of the Dow Jones Sustainability Index, GTZ surveyed 20 internationally active German groups in various industries in 2005. The project team developed a typology of company approaches under sustainable management, which was based on the analysis of motivation, objectives, strategy development, implementation and management of the companies surveyed (see Figure 20.1).

TYPOLOGIES: FROM MINIMALISTS TO DRIVERS

The purpose of the following typology is to describe the status quo and degree of sustainable management in a company (see Figure 20.2). Second, this status review aims to identify directions

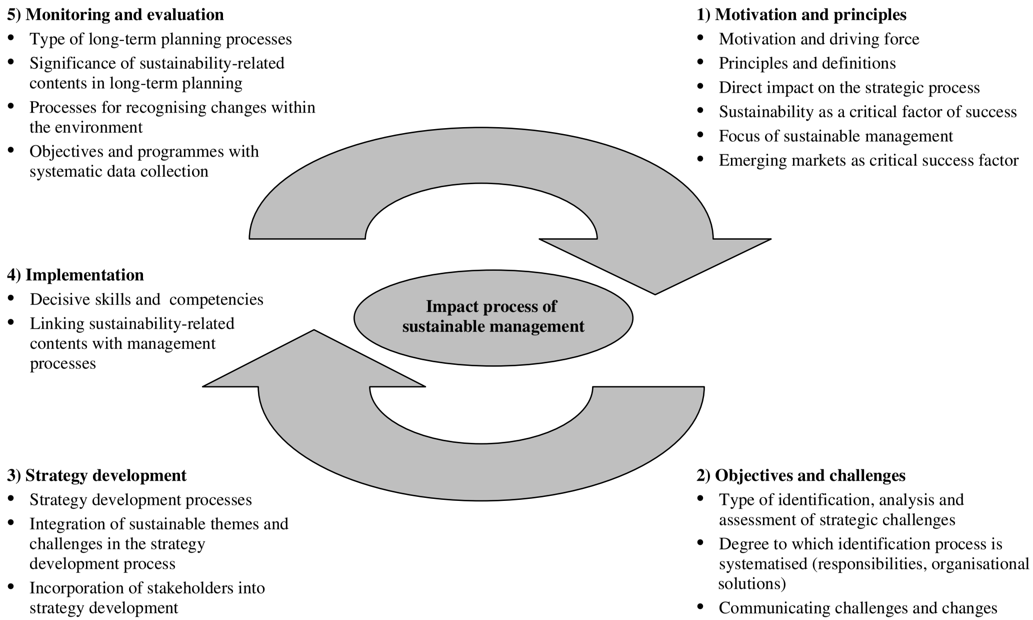

Figure 20.1 Sustainability impact cycle

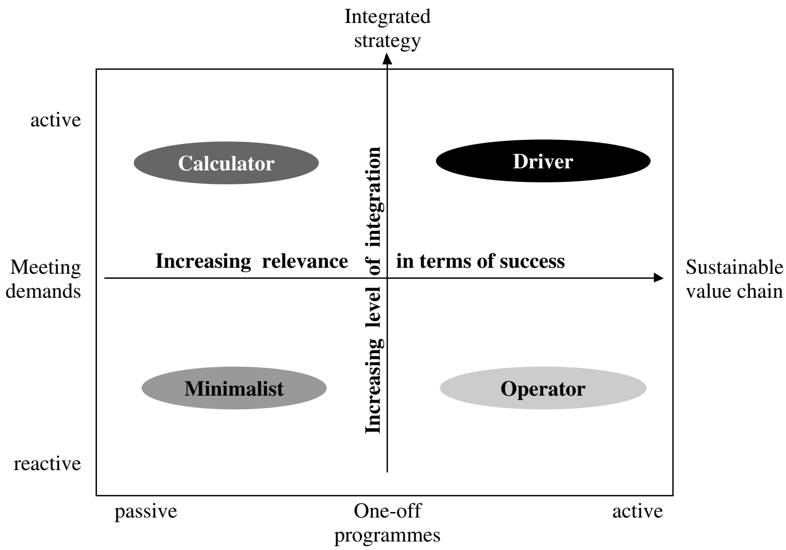

Figure 20.2 Typology matrix

and approaches that result in sustainable management integrated in corporate strategy and significantly affect corporate success.

Minimalists

Companies of this type do not attach particular importance to the theme of sustainability. Their concern with this issue generally begins and ends with protecting against risks and responding to external requirements. This is why sustainability-related contents are neither identified by those companies nor integrated into management processes.

Calculators

Sustainable management focuses on communication with the environment. Sustainability activities are strongly aligned with ratings and indices, rarely associated with related company-specific challenges. They are hardly ever integrated into the corporate strategy. Personnel responsible for sustainability are usually communication experts. Communication is often very broad, but at the same time also very general.

Operators

Operators traditionally take aspects of sustainability very seriously and their approach is based on operational needs (e.g. health, safety, environment, supply chain management). Despite this, commitment is not aligned directly with the core business. Sustainability strategies arise as parallel strategies. They are implemented consistently, but are unable to develop their full benefit for the overall strategy.

Drivers

Drivers show a high level of commitment to integrating sustainability aspects into the overall corporate strategy. This is why there is no separate sustainability strategy. They define their long-term challenges very clearly and aim for competitiveness at their worldwide locations. In addition, drivers have the power to implement strategies with a long-term orientation. They make an active contribution to sustainable development of their own company and the corporate environment. A positive corporate image is also very important for drivers, but in their case the image is based on their entrepreneurial actions. For drivers, integrating aspects of sustainability into corporate development leads to high credibility among staff, shareholders, suppliers and customers. In the dialogue with these various stakeholders from the specific corporate environment, drivers succeed especially in

- achieving *staff* advocacy, where staff at all levels can make their own innovative and creative contribution to a sustainably managed enterprise;
- achieving *shareholder* advocacy by being able to demonstrate savings through sustainably created products and processes;
- achieving *supplier* advocacy, by communicating credibly that they too can improve their quality and reduce their risks in the medium to long term by embracing sustainability;
- achieving *customer* advocacy, by ensuring that products and services are both customer-oriented and future-oriented.

One key advantage of this dialogue is that it is a very effective risk minimisation tool.

SUCCESS FACTORS FOR SUSTAINABLE MANAGEMENT: BECOMING A DRIVER

Resource-conserving processes, efficiency programmes, cost reduction programmes and environmental management systems are just a few of the current *ecological* instruments of sustainable management. Key *social* instruments include social programmes, labour standards, local gender programmes, staff training and health care. However, whether a firm succeeds in implementing sustainable management and becoming a driver is determined by its alignment with the history and tradition of a company, the nature of its products and services, the market requirements and the relevant local, national and international environment.

In addition to these specific requirements, the results of the survey, together with GTZ's global working practice, show there are four key success factors. These represent important milestones in becoming a driver.

1. **Integration instead of separation**
   Mandatory integration of sustainability into a company's overall strategy is crucial for utilising the opportunities of sustainable management. Linking sustainability aspects with long-term corporate goals is decisive for the success, acceptance and credibility of sustainable commitment in both developing strategy and implementing this in management processes. The same applies to a company's extended management processes, since integration of economic, social and environmental elements throughout the entire value chain is an important factor for securing long-term corporate success. For example, involving suppliers in the quality discussion (qualification through training and upgrading, environmental management systems, quality management, technology and know-how transfer) makes it possible to ensure more intensive exploitation of the economic potential of the entire value chain. Here, for example, introducing social and ecological standards ideally has two functions: first as a quality assurance instrument, and second as a contribution towards participating in shaping the company's environment. The dynamism of globalisation itself calls for systematic integration of sustainability aspects into corporate strategy and management processes in order to reduce location-specific risks.
2. **Proactive management of the corporate environment**
   The prerequisites for securing a company's long-term competitiveness include its integration into the local, national, regional and international environment. This includes dialogue with various groups in the company's environment. Participation in stakeholder dialogues, round tables and networks has the clear goal of playing an active role in shaping this environment.

   Given the lack of stability in developing and emerging countries in particular, changes in a company's political, economic and social environment need to be identified.

A company's environment

- **Economic environment**: customers, staff, suppliers, competitors, trade associations.
- **Political environment:** political institutions, associations, chambers, parties.
- **Social environment**: NGOs, educational institutions, insurance companies, non-profit organisations.
- **Ecological environment**: location conditions, management of natural resources.
- **Cultural environment**: tradition, religion, values, intercultural understanding.

Examples of particular external challenges include global climate change, demographic developments, poverty, lack of energy and food security and HIV/AIDS. Understanding these changes and trends and integrating them into business processes is of the essence to utilise opportunities at the individual locations. Low-cost, long-term positioning of a company in the various markets is only possible through proactive shaping of the company's environment. Nuanced management of the environment with a medium- and long-term focus poses high demands in terms of creativeness and innovative capability, but dialogue between actors inside and outside the company makes the process manageable.

3. **Local adaptation instead of global blueprints**
The principle in implementing group-wide strategies is 'all business is local'. Adaptation to local requirements is a central success factor. Group-wide strategies provide a framework which defines the scope for local management. However, local adaptation of the strategies gives local managers the freedom they need to achieve direct benefits from sustainable

management. Environmental factors are just as important as corporate management instruments in developing a group-wide strategy for sustainable management and adapting it to the local setting. The way a company handles environmental changes, such as the spread of HIV/AIDS, is crucial for its success. For instance, company-specific prevention programmes can equally be understood as acceptance of social responsibility and long-term personnel policy. They are accordingly a simple and readily comprehensible example of combining social responsibility and management processes with a long-term focus.

4. **Reducing complexity through prioritisation**
   Given the broad scope of sustainability aspects, aligning activities with the company's core business becomes very important. Company-specific formulation of targets aiming at long-term stability in the company's environment poses high demands in terms of focus and prioritisation. A key success factor is focused concern with a small number of strategically important themes directly related to local corporate needs, rather than a comprehensive approach encompassing as many sustainability themes as possible.

BECOMING A DRIVER: THREE EXAMPLES FROM GTZ PRACTICE

Securing resources sustainably: profitable environmental management in the international supply chain

GTZ is implementing the 'Pruma – Profitable Environmental Management' project on behalf of the German government and in cooperation with suppliers in 20 countries. The project aims to implement measures in the operating practice of SMEs in developing countries that contribute sustainably to:

- reducing production costs;
- improving operating impact on the environment;
- promoting the organisational development of the firm.

Integrating these three areas – cost management, environmental management and organisational development – has short-term impacts on the economic situation of the firms involved and improves their market position in the long term. Pruma comprises the following modules:

- **Resource management**: training workshops on efficient use of raw materials and energy, and fundamental connections between product design, work planning and organisation, and production costs.
- **Good housekeeping**: training workshop on improved identification of inefficient, environmentally harmful use of resources, resulting in cost savings, as well as improving both environmental impacts in the firm and industrial safety. Good housekeeping can be used as a first step towards further environmentally oriented management activities.
- **Cost management**: in a series of training workshops entrepreneurs learn to reduce the costs of waste products – all outputs which are not part of the final product – systematically and continuously. They reduce the negative environmental impacts of their business, cut production costs and initiate a process of internal organisational development. Experience has shown that the process, which is designed for transparency, motivates staff to contribute actively to further improvements themselves.
- **Network meetings**: entrepreneurs meet regularly to develop cost-effective eco-friendly solutions and strategies for challenges in their everyday operations.

In the driver's seat?

Through their participation in Pruma, these firms have taken an effective step towards becoming a driver by giving clear priority to environmentally oriented management. Some 300 case studies from 20 countries and 50 industries document this impressively. Depending on the company size and the nature of the improvements, firms save between US$500 and US$150 000 per measure, with little or no investment. Payback times are less than one year in 55 % of the cases, and some 25 % of the measures pay off at once and result purely from organisational improvements. However, it is not only the positive economic effects that make a contribution to sustainable management; improvements to the ecological and social dimensions of the 'company as system' also play a part. The next step on the way to becoming a driver is to broaden consideration of the issues to include social components in the overall management of the enterprise.

Stakeholder dialogue for more quality: Common Code for the Coffee Community with the German Coffee Association

The Common Code for the Coffee Community (CCCC) is a joint initiative by the German Coffee Association and GTZ. It aims

- to **strengthen** the **competitiveness** of producers, the processing industry and traders in terms of quality enhancement and security (optimised production, management processes etc.); and
- to **promote sustainable production methods** to secure the long-term prospects of producers and traders.

The CCCC follows a holistic concept of sustainability, comprising a *social, ecological and economic dimension*. Criteria have been developed for each dimension to evaluate the performance of participants in terms of the requirements. Starting from the idea of a process of ongoing improvement, actors along the entire value chain and their environment (customers, competitors etc.) are led to a new and holistic understanding of quality. The initiative essentially comprises the following measures:

- developing a practice-driven code of conduct for globally sustainable production, processing and trading of raw coffee;
- developing implementation guidelines, an independent monitoring system and an evaluation concept;
- proactive environment management through structured multi-stakeholder dialogues;
- carrying out pilot projects to implement and apply the Common Code.

In the driver's seat?

The key success factors of the initiative are integrating aspects of sustainability into the entire value chain and proactively structuring dialogue with all participating stakeholders. The vice president of the German Coffee Association, Annemieke Wijn from Kraft Foods, stresses specifically that sustainable coffee cultivation is ultimately more efficient for everyone involved. As businesses progress to become drivers, it will be important to maintain the momentum of the initiative in the future to ensure that the economic benefits of sustainable management can continue to evolve for all participants in the value chain.

Local personnel policy: HIV/AIDS workplace policy with DaimlerChrysler in South Africa

In 2001 the incidence of HIV among employees of DaimlerChrysler South Africa (DCSA) was still completely unknown. However, it could be assumed that the incidence among staff in the company matched that in the urban centres of South Africa, where one in every four to six people is reportedly infected with the virus. On this basis, some 500 to 1200 of the roughly 3000 staff at the Daimler plant in East London would be infected with the virus. Besides the tragic social consequences, the economic consequences of AIDS, such as the loss of trained and qualified staff, rising absenteeism, shrinking human resources and falling productivity are risk factors for every company.

Together with GTZ, DaimlerChrysler built up a comprehensive work programme over the next few years, including the following goals:

- **Improvement of health information**, education and communication regarding HIV/AIDS in order to reduce stigmatisation in the workplace, improve preventive behaviour and achieve a higher take-up rate for health services.
- **Improvement** of the effectiveness and quality of the **medical care networks** for company staff with regard to TB and HIV/AIDS.
- Support for adequate and cost-effective **adaptation** of the company insurance systems **to the characteristics of the disease**.
- **Sharing experience** of HIV/AIDS prevention at work.

In the driver's seat?

Four years on, examples of the positive impact of this scheme include a 56% drop in the mortality rate. Furthermore none of the babies of the HIV-positive mothers in care were infected with HIV and there has also been a significant reduction in incapacity for work. Overall the programme has accordingly made a substantial contribution to the automotive company's medium-term security in its South African environment. The combination of a long-term perspective and rapid response to direct changes in South Africa made it possible to reduce the economic risks. The workplace programme is an important and pragmatic milestone on the way to becoming a driver in terms of the automotive group's South African environment. As the company continues its progress to become a driver, involving subcontractors in the workplace programme and utilising the South African experience for other DaimlerChrysler facilities will play an important role.

COMPANY PROFILE

The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, a company owned by the Federal German government, is active globally in the field of international cooperation. Taking a variety of approaches, GTZ makes a structural contribution with partners from politics, the private sector and civil society in over 130 countries in Asia, Africa, Latin America and Eastern Europe. GTZ's activities cover a broad spectrum, from advisory services to government and economic promotion right through to environmental and resource management.

AgenZ bundles GTZ's global competencies and supports internationally active companies as they move towards sustainable management.

For further information see www.gtz.de.

CHAPTER 21

What Gets Measured Gets Done

Anita Roper

When Alcoa began to formalise its approach to sustainability in the late 1990s, it became apparent that this would only be successful if the company set ambitious goals, measured progress toward those goals and reported publicly on that progress. This 'what gets measured gets done' approach has resulted in significant environmental, social and economic achievements and a sustainability strategy that aligns the interests of all stakeholders.

Sustainability is not new to Alcoa, although in the past we did not always use this term. For many years, we strove for excellence with a focus on improving our understanding and management of the economic, social and environmental effects we created within communities where we had a presence.

Today, our vision is to be the best company in the world. This vision, combined with our values, principles and systems,

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provides a solid foundation for integrating sustainability into our operations.

Our sustainability goal is to achieve financial success, environmental excellence and social responsibility simultaneously. We aim for that success through partnerships that help us deliver net long-term benefits to our shareholders, employees, customers, suppliers and the communities in which we operate.

To achieve this, we need to engage our stakeholders, set short- and long-term goals, implement initiatives to reach those goals and be the best company in each community.

This belief has underpinned our work with communities to gain a better understanding of how Alcoa affects their economies, societies and environments. It has focused us on integrating sustainability into our decision-making processes and establishing mutually agreed goals and performance measurements.

This is not without challenges, and there is not always agreement between various stakeholders on the value of our involvement. Stakeholders sometimes bring conflicting expectations, experience and objectives, and we must work with them to seek understanding, reasonable balance and agreement.

We must also engage with a wide array of stakeholders, as we have operations in more than 40 countries, which are at varied stages of the economic, environmental and social development cycle. We strive for a global view that accommodates local viewpoints, using our values and principles as guideposts while being sufficiently flexible to take local conditions and stakeholder expectations into account.

All of our stakeholders demand an organisation that is accountable and transparent. To meet this expectation, Alcoa has created frameworks and processes that codify our sustainability approach and permit us to manage and measure our internal and external efforts in achieving sustainability.

2020 STRATEGIC FRAMEWORK FOR SUSTAINABILITY

Alcoa has a long history of using metrics as a means to drive change within the company. In 2000, we established our 2020 Strategic Framework for Sustainability, which is supported by clear, publicly declared targets for measuring progress toward our vision for 2020. These targets are supplemented by environment, health and safety (EHS) goals and complemented by our existing financial goals.

The framework began in 1999 when a worldwide team analysed environmental trends from 1900 to the present and predicted environmental trends for the next 20 years. Short-term (interim) goals were established for business planning purposes, and long-term (strategic) targets were set to provide directional guidance for the locations and businesses. Goals and targets were discussed and agreed upon with business leaders and technical experts throughout the company. We also expanded our metrics system to collect the data needed to measure performance against our interim and strategic goals and to track trends.

Progress was excellent. Within four years of the framework's implementation, we had a surge in ISO14001 management system certifications at the location level, a 50% reduction in land-filled waste, almost 30% lower water use, a 25% cut in greenhouse gas emissions, major reductions in other air emissions, a dramatic drop in spills and other environmental incidents and 90% fewer non-compliance issues, to mention but a few of our achievements. The process continues to work because the data system allows us to set clear goals, track our progress and analyse data to identify where additional focus is needed.

Without a system to measure the appropriate data, it is difficult to focus employee attention properly, to make everyone aware of the importance of the issues, and to demonstrate management commitment to getting the job done properly. We have concluded that most, and perhaps all, people want to do the right thing . . . but they need to have a clear understanding of what the right thing is and how best to go about doing it. Alcoa's 2020 Strategic Framework is a process to help us ensure that clarity for all employees and provide timeframes that allow employee creativity and innovation to be brought to bear on the issues.

We will continue to measure our progress, convert the data into useful information and use that information to manage our performance.

INTERNAL PROCESSES

To take advantage of opportunities for embracing sustainability, an organisation also needs to integrate this thinking into its internal processes – governance practices, manufacturing design and processes, employee and business systems and business opportunities. These are critical to help set goals and measure progress toward attaining them.

Metrics system

In 1988, Alcoa initiated a process to collect and display current, detailed information on safety and make it available to all employees. We have expanded the original data system to include incident management, and we now use the system for all environmental, health and safety data collection, incident management and reporting.

We can use the system at any time to determine current safety statistics, including accidents or near misses that occur anywhere in the world on a particular day. We can also view detailed reports on incidents, review the corrective action plans or status of a corrective action and evaluate our progress toward our environmental, health and safety goals. The system is an excellent management tool, which has helped us facilitate our rapid progress in these areas.

As part of our commitment to openness and transparency, we began publishing real-time safety data publicly on www.alcoa.com in 2003 to provide timely insight into our performance on this critical measure.

We continue to work on determining which regional or global metrics are required to guide us toward achieving sustainability, particularly in the more complex and difficult-to-measure social aspects of our operations.

Audit

Alcoa's goal is the same through both its internal and external audit processes: to maintain world-class transparency and accountability in our operations.

External auditors review our financial performance thoroughly, and we publish these results in our annual report. We also have an autonomous, global Internal Audit Department (IAD). This group is responsible for providing financial, information technology and environmental, health and safety audits in all Alcoa locations around the world. The group assesses risk across the company, applies audit resources to address those risks, and develops recommendations to close any gaps detected in the course of an audit. IAD is also charged with implementing the Alcoa Self-Assessment Tool, a type of self-audit that is required to be performed at least once every 18 months by all Alcoa locations and administrative processes worldwide.

Alcoa Business System

Alcoa's operating system is known as the Alcoa Business System (ABS). It is characterised by three overarching principles: make to use; eliminate waste; and people linchpin the system.

In practice, this means:

- Defining precisely our customers' requirements.
- Pre-specifying the activities, the pathways and the connections necessary for meeting those customer requirements and refusing to vary from them.
- Safeguarding what we have pre-specified with built-in tests to identify and solve problems that might threaten our predetermined outcomes.
- Enabling every Alcoa employee to recognise and trace problems back to their root cause and eliminate them – not through the use of elite, discrete teams of problem solvers, but through the disciplined, immediate, relentless participation of the people occupying the affected pathway.

This system provides the most efficient way to eliminate waste by enabling us to supply customers, on demand, with defect-free products at the lowest cost and with the highest degree of safety.

Ethics and Compliance Line

One of the ways we monitor and measure our performance in adhering to our values and business conduct policies is our global Ethics and Compliance Line. This line offers employees and other concerned parties an anonymous channel to express concerns and raise issues about workplace activities and business practices. Employees are also encouraged to use the line to obtain interpretation of laws or regulations, seek clarification of Alcoa policies or procedures or simply ask for advice on proper actions.

The compliance line is available to Alcoa employees worldwide, with local toll-free compliance lines answered in the caller's native language, where possible. We also offer an ethics and compliance email address (anonymous, if desired) and a postal address to submit written inquiries. Every concern or request for advice is addressed and responded to without reprisals. We have a target response date of 18 calendar days contingent upon the seriousness and number of issues raised.

The issue is reviewed immediately when an employee calls or sends written notice. Matters considered to pose an immediate threat to the personal safety of employees, Alcoa property or the community are sent to predetermined emergency contacts who begin an immediate investigation and institute corrective action when necessary. Non-emergency issues are sent to a regional liaison officer for review and forwarding to the appropriate location or business unit for investigation. Once an issue is resolved, a written report on the investigation and any corrective measures is submitted to the regional liaison, who then responds to the employee; this is done through the service provider to maintain employee confidentiality.

Through this process, we have established a sophisticated network of contacts across the global organisation. The regional liaisons, typically the general counsel for the region, have access to an up-to-date list of contact people at each location or business unit designated to investigate any issues at their facilities. This clear hierarchy helps us meet our goal of an 18-day maximum timeframe to respond to anyone reporting an issue.

We have also had success in using an outside vendor to receive the initial calls, emails and letters. The vendor can staff the line 24 hours a day, seven days a week in any part of the world and in most languages, using a data maintenance system to track each issue as it moves through the process. However, if budgets and staffing allow, doing this work in-house has certain advantages. The vendor is locked into accepting and fielding all calls to the line, even if they pertain to non-compliance issues. If Alcoa employees staff the line, we would have greater leeway in asking the caller questions to confirm if the issue has substance before forwarding it to the regional liaison.

The metrics we use to evaluate the compliance line fall into two categories – activity (quantitative) and effectiveness (qualitative).

Activity metrics measure whether the process for receiving and handling calls is in place and working. The parameters include the number of calls received, whether each call was answered within three minutes, if the translator was on the line in three minutes and whether the caller received a response in 18 days, to name but a few.

The metrics for effectiveness are more complex. We can survey employees to ask if they know about the line, whether it's useful, if their issues are being addressed properly, etc. Other qualitative measurements include the following:

- How many issues raised could be verified/substantiated?
- How many disciplinary actions or terminations occurred due to verification of the issues reported?
- What was the volume of calls in which an employee sought advice before acting, thus perhaps preventing an issue from arising later?
- How many calls resulted in a process or procedural change or an improvement being implemented on the basis of the investigation?
- What costs were reduced or eliminated (if any) by implementing a process or procedural change due to a call?

We have found that most employees are comfortable using the compliance line, but there are regions where providing a reporting tool like the Ethics and Compliance Line is not culturally acceptable at this stage in the country's development. Where it is culturally acceptable, the line is a very effective means to facilitate detection and correction of problems. It is also used as one way to keep management aware of what is occurring in their respective businesses with regard to ethics and compliance issues.

EXTERNAL PROCESSES

In this age of information access and global connection via the Internet, stakeholder expectations have become increasingly complex and sophisticated. These expectations have moved from 'trust me' to 'tell me' to 'show me' to 'involve me'.

Concurrently, the issues stakeholders are most concerned about have evolved from primarily economic and environmental matters to encompass social responsibility and governance. Performance expectations have also evolved from regulatory compliance to stewardship, and with this has come the call for increased transparency and accountability.

Community trust is invaluable in resolving disputes and issues, and Alcoa understands that trust is built when stakeholders see that we are open to hearing their concerns and working with them to address environmental, social and economic issues. From deploying a community framework to engaging the community early in greenfield developments, we are strengthening our relationships with key stakeholders by listening to their expectations and setting goals and introducing measurements to address them.

Alcoa Community Framework

In 2001, we launched the Alcoa Community Framework to help our locations facilitate and measure ongoing relationship building and communications with employees and community stakeholders.

The framework allows for great local flexibility and results in community engagement through a variety of means. These range from simple briefings, discussion forums on specific issues, open houses, plant tours and tree plantings to active participation by community members in the development of our locations' environmental improvement plans.

For example, our US locations conduct individual community assessments to gain a better understanding of each location's role in the community and how best to work with stakeholders to address the needs of both Alcoa and our neighbours. Once an assessment is completed, the location develops a roadmap spelling out how it will deal with issues and stakeholders. Actions include forming community advisory boards, building relationships with local officials and media, leveraging employee engagement in the community and contributing to the facility's long-term economic sustainability.

These US locations are subject to a metrics assessment that evaluates eight categories of performance on a four-step scale: community assessment; events; effective government relations; effective media relations; effective contributions and employee involvement; community consultation; participation on statewide teams; and value added.

Each plant receives guidance on how to move from the starting point to full engagement in each category. The quarterly results are shared and reviewed with the business unit presidents, group presidents and other senior Alcoa management to ensure high performance is achieved and sustained. A similar system is used at many of our locations throughout the world.

In Australia, all locations have established community consultative networks that bring together Alcoa and community representatives. They work together on important issues, including sustainability, environmental effects, local employment and Alcoa sponsorship and partnership programmes. Locations have also developed other programmes for community engagement.

For example, our operations in Victoria established 'Alcoa in the Community' committees made up of a diverse range of employees, from management to union delegates. The committees proactively pursue community partnerships, approve sponsorship requests, act as ambassadors for the company and promote volunteering in the workforce.

We also work with Victorian communities to develop environmental improvement plans for each location. Community members participate in developing the plan, sign off on the plan, monitor our progress in achieving targets and review the plan annually.

In addition to our ongoing community engagement through the Alcoa Community Framework, we involve the local community when we plan to build new facilities and expand or upgrade existing ones.

Greenfield project – Iceland

In 2004, Alcoa began construction of an aluminium smelter with a capacity of 346 000 metric-tons-per-year in eastern Iceland, our first new smelter in 20 years. We saw the project as an opportunity to improve our approach to greenfield development by seeking the stakeholder perspective and using the feedback to improve design and performance.

Other developers had been considering an aluminium smelter and hydroelectric project in eastern Iceland for more than 20 years when Alcoa and the government of Iceland agreed to build the facility. The previous projects, which never materialised, had already triggered expectations and concerns within the communities affected. We recognised a need to engage stakeholders in a meaningful way to understand these expectations and concerns and to build trust. Working closely with Landsvirkjun, the developer of the hydroelectric facility, we decided to structure a process to help the projects be designed, constructed and operated in a manner that would strike a balance between environmental, social and economic considerations and improve long-term performance.

To that end, Alcoa and Landsvirkjun jointly identified and worked with a broad coalition of external stakeholders to develop sustainability objectives, indicators, performance targets, metrics and a public reporting process.

An advisory group comprising more than 30 stakeholders from Alcoa, Landsvirkjun and numerous governmental, educational and non-governmental organisations was central to the initiative. Participants included local, national and international stakeholders, representing both advocates and opponents of the project. The group decided its purpose was to look forward – not backward – and develop indicators to measure the performance of the hydro facility and smelter against sustainability targets.

The advisory group identified almost 50 indicators and more than 70 associated metrics, which continue to be developed and refined. Each indicator was categorised as one of the following:

- Direct – Alcoa (or Landsvirkjun) has sole accountability for the respective performance (e.g., plant air emissions).
- Indirect – Alcoa has some level of influence; however, other stakeholders also influence performance (e.g., the number and proportion of jobs in key economic sectors nationally and in the local community).
- Induced – The project will affect changes in the community; however, Alcoa has limited ability to affect the outcome (e.g., the number of cultural events per year in east Iceland).

Examples of indicators and metrics include the following:

- Environment
  - Indicator: number of species
  - Metric: changes in population

- Social
  - Indicator: number of apprentices/trainees
  - Metric: turnover in apprentices/trainees
- Economic
  - Indicator: regional wealth
  - Metric: change in income levels

Baseline conditions and data were recorded as part of the process, and Alcoa and Landsvirkjun established specific performance targets and developed monitoring protocols. Both companies are fully committed to publicly reporting and communicating monitoring results.

Greenfield project – Guinea

Alcoa, which has had a mining presence in Guinea since the late 1960s, is planning an alumina refinery with a capacity of 1.5 million metric-tons-per-year to be built in partnership with the country's government and Alcan.

The proposed location for the refinery is Boké prefecture, an underdeveloped portion of the country comprising small villages without running water and electricity, where most of the local population is illiterate. While the refinery would bring substantial economic benefits to the local community, Alcoa wanted to evaluate the environmental and social effects as well through a sustainability impact assessment.

We started dialogue with the local villages via community meetings at the onset of the initial project feasibility study. While we didn't have a lot to tell the residents initially, we committed to keep them informed and to work to minimise our presence during the environmental assessment and exploratory drilling. Rumours had already spread within the area about the choice of a site, and our actions in keeping local people informed built a level of trust for when the decision was made.

Because there was minimal information about Boké prefecture's biodiversity, we engaged Conservation International (CI) to conduct an initial biodiversity assessment and planning (IBAP) project. An IBAP integrates biodiversity information and conservation planning into the earliest stages of a project's design and implementation using a science-based approach.

CI, with assistance from Guinée Ecologie (a Guinean environmental non-governmental organisation), conducted a biodiversity rapid assessment, examining the flora and fauna of several sites within the Boké prefecture. The scientific team included experienced tropical biologists from both foreign and West African institutions, including eight Guinean experts.

In some cases, the assessment represented the first biological survey in nearly 50 years. While the habitats surveyed appeared heavily impacted by human activity, several important species were observed, including a rare crab species recorded at only one other site globally, various species on the Red List of Threatened Species and numerous species never previously recorded in Guinea.

CI, Guinée Ecologie, Alcoa and Alcan presented the findings from the survey at a multi-stakeholder workshop, where an action plan for conserving biodiversity in the Boké prefecture of Guinea began to be formed.

By working with independent non-governmental organisations and a strong technical team, we ensured a fair and objective assessment of the refinery's environmental impact and continued to build trust with the local community.

We will apply Alcoa's global standards for environmental, health, safety, audit and various other issues to further measure and control our impacts. In addition, we will undertake work consistent with the environmental and social standards of the International Finance Corporation (IFC), which is part of the World Bank.

Greenfield project – Juruti

In the heart of the Amazon, a proposed bauxite mining project is serving as a microcosm of sustainability. How can Alcoa extract and refine bauxite from the pristine Juruti region of Brazil yet leave behind enhanced environmental conditions once the project is completed? How can the project have a positive effect on the local community both economically and socially without altering the region's unique culture and heritage?

In an effort to find the answers, Alcoa conducted and sponsored extensive surveys, studies and field research, which identified the region's current environmental, socioeconomic and cultural components.

Outcomes of this initial work included detailed environmental maps of the area showing archaeological sites, protected areas, headwaters and more. Other surveys identified current conditions state of the physical environment (water streams, soil, groundwater, etc.), the region's plants and animals and the people of Juruti. The survey of the local people included their economic activities, quality of life, cultural and historical heritage, archaeological heritage and other parameters.

Due to controversy arising from non-Alcoa projects in the Amazon, Alcoa deepened its understanding of potential social impacts in the short, medium and long run through two key stakeholder and community opinion surveys to evaluate present and future concerns.

To engage the community, Alcoa held three public meetings to discuss the project's implementation. The first public meeting in the city of Juruti attracted 6000 people. The second took place in Santarém, with 1000 participants. Seven hundred people attended the last meeting in Belém.

To prepare for the hearings, Alcoa organised about 70 pre-public hearings. Many were held in a customised boat, which travelled about 300 kilometres of local rivers to reach citizens living along the watercourses. During the meetings, Alcoa used to foster involvement and increase understanding. In addition Alcoa established a partnership called *Rádio Margarida* (The Margarida Broadcast) with a non-governmental organization in Pará, which also included art teachers. Before holding pre-public meetings, Alcoa visited the communities to be introduced to community leaders and to invite the citizens to the event. After the meetings, critical points were consolidated and used to support and improve the forthcoming studies.

Alcoa also printed 21 000 communication instruments for distribution in the community. These included posters, personalised invitations, comic books, the *Viva Comunidade* newsletter, calendars and folders. The company also ran an advertising campaign; this included 500 commercial advertisements, four mini billboards, 15 banners spread over strategic parts of the city and 100 screenings of a corporate video. Complementing this work was a press initiative, including press conferences, gatherings and interviews.

A preliminary licence for the project was granted following the hearings, allowing construction to begin.

Expansion – Pinjarra

By combining a state-of-the-art environmental impact assessment with an innovative community engagement process based on a sustainability framework, our Pinjarra refinery in Australia received government approval in just seven months to increase annual production by about 600 000 tons.

Initially, community sentiment about the upgrade was somewhat sceptical. Engagement with this stakeholder group became critical to ensure regulatory bodies approved the expansion, and the resulting consultation and engagement process was built upon the refinery's existing community consultative network.

A community workshop brought together a broad cross-section of the community that had a direct interest in the Pinjarra efficiency upgrade. The 40-plus stakeholders involved in the workshop included representatives from the local community, neighbours, residents, local business owners, local and state government and the Alcoa project team and management.

The main purpose of the community workshop was to establish a stakeholder reference group (SRG) to work with the Alcoa team on environmental, social and economic aspects of the proposed efficiency upgrade project.

The SRG played an important role in representing the views of the local community on an ongoing basis during the project. In particular, the SRG:

- Became a major consultation point for the company to discuss and refine details of the proposal with stakeholders.
- Reviewed the various parts of the project important to stakeholders.
- Advised Alcoa on how the stakeholders believed environmental, social and economic issues should be recognised, managed and supported.
- Reviewed the draft environmental protection statement submitted to the Environmental Protection Authority.
- Advised Alcoa on how best to provide information to the broader community.
- Helped provide information on the project to the local community and community groups.

As part of the ongoing consultation activities for the proposed upgrade, an open house was held to give the local community a better understanding of the wide range of issues relating to the proposed project. Alcoa representatives and SRG members attended the event to talk about the proposed project and answer questions from the community. Information about the environmental, economic, social and other general aspects of the project were on display.

Following the project's approval, the chairman of the Environmental Protection Authority of Western Australia called Pinjarra's community engagement model an example of a 'best practice'.

Expansion – Wagerup

We have not always been successful in our community engagement efforts. Our refinery in Wagerup, Australia, had been poised for expansion for several years. However, the level of scrutiny and criticism from the media, community and government concerning odours, noise and other emissions from the facility had slowed down the expansion effort.

In response, we invested some 30 million Australian dollars in a comprehensive odour, noise and emissions reduction programme. This reduction programme was independently audited and found to have been highly effective in reducing emissions and odours from the refinery. An extensive ambient emissions monitoring programme was also undertaken to provide the community with the best possible information and to raise community confidence about air quality in the area surrounding the refinery.

Wagerup also began working with the surrounding community and government officials to address health concerns and land management issues that had arisen during efforts to develop a compatible land use framework in the area surrounding the refinery. A tripartite group (community, government and Alcoa representatives) was set up to provide advice on issues related to the environmental licence for the refinery and the environmental monitoring. Initiatives to provide greater information on ambient air quality included a trained odour response team to provide rapid response and follow-up on odour complaints. Wagerup also partnered with a local university and relevant government agencies to work with the surrounding community to identify and resolve issues associated with the refinery's operations, particularly land management, and to build confidence and capacity.

This engagement and a major two-day community open forum laid the groundwork for an even more comprehensive stakeholder consultative process as part of the assessment for a major expansion proposal for Wagerup. This community engagement process drew on the experience of the successful community engagement model developed for the Pinjarra upgrade project. Through these efforts, we took significant steps to rebuild our relationship with the community around Wagerup.

Gaining the trust of these stakeholders will require constant efforts to ensure that the refinery can be considered a good neighbour that contributes to sustainability in the region.

LESSONS LEARNED

So far, we have learned many lessons on our sustainability journey. Key points for organisations to consider when embarking on their own sustainability and engagement strategies include the following:

- Always adhere to your vision, values and principles.
- Set goals and measurements to focus attention, establish importance and show management support.
- Build internal and external ownership for specific initiatives by starting engagement early before key decisions are made.
- Ensure engagement is representative and inclusive.
- Establish partnerships and align goals and objectives at the outset.
- Define clear objectives, roles, responsibilities and boundaries for engagement and keep focused on the objectives.
- Listen and be responsive to local needs.

- Be aware of the local culture.
- Know that there never seems to be enough time.

Organisations today can no longer be self-contained, inward-focused entities. They first need to acknowledge they have an impact on the community and then begin to assess that impact, address stakeholder issues, set goals, measure progress and report on that progress.

What gets measured gets done, and what gets done is good for both the organisation and the community.

PART III

RANKING AND AUDITING

CHAPTER 22

The 'Good Company Ranking' of the *Manager Magazin*

Arno Balzer and Michael Kröher

BASICS

The *manager magazin* (mm) 'Good Company Ranking' is the first systematic assessment of the corporate social responsibility (CSR) practices of German and European large companies. The resulting ranking list is more than an assessment of the companies' efforts in the fields of sustainable and ethically responsible personnel management, environmental conservation and community service. Indeed, it evaluates these aspects of CSR in their direct relation with the companies' commercial success. Thus it can be said that the Good Company Ranking examines the extent to which investments in CSR are conducive to the company's basic goals of profitability and business growth.

With a circulation of more than 125 000, mm is Germany's leading monthly publication for decision makers in the business

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community; its average over-the-counter sales figures (including bookstores in train stations and comparable sales outlets) are higher than those for all other German business magazines. And according to data collected in December 2005, mm is quoted in other media more often than its competitors.

manager magazin can therefore be seen as an opinion leader in the field of German-language business journalism. What's more, the publication has a strong, decades-long tradition of critical investigative reporting supported by independent research, particularly when it comes to large companies. Among many other achievements in keeping with this tradition, throughout the 1990s mm followed very closely the discussion regarding corporate governance that eventually culminated in the set of regulations developed by the so-called Cromme Commission.

Thus such issues as entrepreneurial ethics, social responsibility and the moral behaviour the financial markets and of large companies as they conduct their day-to-day business have come to play a central role in the articles and reporting of mm.

Following the establishment of the 'Cromme Code' in 2002, the editors took on the task of addressing other aspects of ethical business management and corporate social responsibility, illuminating them with substantiated, sustained, transparent journalism.

There was discussion about potential topics suitable for independent, autonomously prepared rankings. The magazine had set new standards in the methodology of rankings in the 1990s, e.g. with its evaluations of the annual reports of companies listed on the (German) stock market. Every two years this ranking, 'The Best Annual Reports', is conducted by a jury of experts on behalf of mm, and published in the February edition of mm.

INITIAL SITUATION 2003/04

English-language publications on the fundamentals of corporate citizenship (CC), CSR and corporate responsibility (CR) in general (e.g. Gopalkrishnan, 2000 and Anderson, 1989) began appearing around the turn of the century. In December 2001, the OECD held a round table discussion on the subject (Nourick, 2001) in Paris with international participants. Subsequently the topics of CC and CSR began appearing more often on the agendas of business congresses and association conventions throughout continental Europe. The first German-language treatments of these subjects appeared in publications issued by companies and associations such as the Bertelsmann Foundation; individual companies (e.g. Henkel, Bertelsmann, Deutsche Post etc.) established task forces to address the relevant tasks in a systematic manner. The results of these efforts were then reported in company publications.

The 'Freedom and Responsibility Initiative' of the DIHK (German Chamber of Industry and Trade) concerned itself with CSR and CC, and initiatives on the subject were also launched by the BDI (Federation of German Industries) and BDA (Confederation of German Employers' Associations).

In the year 2003 the German-language *Handbook of Corporate Citizenship* was published by André Habisch, a professor at the Catholic University of Eichstätt (Habisch, 2003). At the end of that same year, Christian Schwalbach, professor of management at Berlin's Humboldt University, announced the first international scientific congress on the subject of corporate social responsibility.[1]

Thus it was only fitting that mm – in cooperation with the Hamburg business consulting company Kirchhoff-Consult, which had also provided consulting and organisational assistance for mm in preparing the ranking of annual business reports – worked out a concept in early 2004 for an independent ranking, autonomously researched and compiled, that would evaluate the success of the CSR management of individual companies.

[1] International CSR Congress at Humboldt University, Berlin, on 14–15 October 2004, under the direction of Professor Joachim Schwalbach.

The ranking list offered mm readers exclusive insights into an area of business management and culture that previously had been largely unknown. At the time, no assessment of CSR activities or of CSR management within companies existed in the German-speaking world.

OBJECTIVES, UNIQUE FEATURES

The *goals* of the planned CSR ranking were exclusively journalistic ones.

The business ethics and the social responsibility of companies were to be evaluated, and the results published in a consumer medium. The report would include objective criticism of the management of the companies assessed, and positive examples would be listed and presented as potential 'role models', as it were.

The result would be an overview of the general situation in the German business community, as well as in individual sectors (companies listed on the stock market, with various levels of sales volume, etc.).

However, the *most important unique feature* was that the ranking would *not* be an 'open competition' individual companies could enter into or apply for.

Both the selection of the companies and the evaluation of their CSR management was carried out independently by the creator of the ranking list – using verifiable data, according to objective criteria, and for purely journalistic purposes.

A second unique feature was *general assessment of the success* of the companies' CSR management. This means: What was to be evaluated was not the mere idealisation of a good CSR concept, not the intention of becoming or being perceived as a good corporate citizen, but the actual business success achieved by implementing these concepts.

Success would neither be measured solely by compliance with social and ethical standards, nor solely in the protection of human rights, the absence and prevention of corruption, etc. Instead, the ranking would also evaluate materially measurable business success – i.e. increase in sales volume, profit, stock price, EBIT margin, total shareholder return, cash flow, equity ratio, etc.

This was done in order to avoid rewarding 'corporate charity' conducted in the form of generous cultural or sports sponsorships. Instead, the goal was to reward CSR management that comprehends the costs incurred in implementing the necessary measures as an investment which should and must lead to ongoing, verifiable improvement in corporate profits, and that views ethical behaviour and corporate responsibility as a strategy to increase the value of the company.

A third unique feature was the *internationality* of the ranking list. In the age of globalisation, and of corporations with worldwide operations, it makes no sense to limit the evaluation to German companies. Firms headquartered in Germany are always in competition with foreign companies – on the product market level, the level of financial markets, etc. Thus an international comparison was deemed most appropriate to achieve the desired goals.

PARTNERS AND ASSOCIATES

In addition to the initiators – the editorial offices of mm and the Kirchhoff-Consult company of Hamburg – the German branch of the international auditing firm Deloitte also came on board as a further sponsor of the CSR ranking. Deloitte agreed to provide experts (e.g. specialists to evaluate the environmental protection activities of companies within the framework of the CSR ranking) and to host the necessary meetings of the various advisers.

SELECTION AND METHODS

Sampling

On the basis of an autonomous selection of candidates (see above: Unique features), the basic sample of companies was determined as follows:

- All companies listed on the DAX 30 stock market index.
- All companies listed on the Stoxx stock market index (with the exception of those also listed on the DAX 30).
- A selection of 10 additional German companies from the industrial, retail, financial services and service sectors, which either already possess established intensive CSR management (e.g. Bosch GmbH, Bertelsmann AG), or are companies one would expect to have engaged in CSR management due to their role in German society (e.g. Deutsche Bahn AG, DZ Bank) or on the international marketplace (Boehringer Ingelheim GmbH, RAG).

The resulting sample totalled 80 participants.

Method

In the second quarter of 2004, a letter was sent to the selected companies requesting them to submit any and all written materials that could provide information about the objectives, scopes, implementation and evaluation of their CSR measures, in particular in the areas of:

- human resources;
- community service;
- environmental protection;

- financial strength/performance;
- communication of CSR measures – both internally and externally.

The partners and associates (see above: Partners and associates) established special task forces for each of the above-specified criteria.

Material submissions

The materials submitted included not only special CSR reports, but also environmental reports, business reports, internal papers and other publications.

In addition, the *websites* of the companies were evaluated, along with reports on the CSR activities of the companies that had appeared in independent consumer media (archive research). In individual cases, additional CSR management materials were requested from the management boards of the companies; in some cases, also from the PR and IR departments.

EVALUATION: CRITERIA, WEIGHTING AND BENCHMARKS

The CSR management of a company comprises tasks in several areas, and they must all be taken into consideration before generalisations can be made about social responsibility and ethical leadership. At the same time, the planned ranking was intended to analyse and evaluate individual aspects in detail. The partners and associates devised the following structure for the assessment of individual aspects of CSR.

Human resources

Data and facts on the following aspects were evaluated:

- Compensation (total and relative) and salary structure.
- Personnel development.
- Achievement of potential.
- Ethics and commitment.

Community service

Data and facts on the following aspects were evaluated:

- How community service activities are managed relative to the company's general strategy.
- How the CSR programme is anchored in the company.
- Degree of innovation in community service activities.
- How the company's initiatives are integrated in and perceived by society.
- How the company generates awareness and understanding for the themes of its CSR programmes.

Environment

Data and facts on the following aspects were evaluated:

- Company performance on environmental issues.
- Environmental aspects of the value-added chain.
- Ecological innovations.
- Integration of environmental aspects within business processes.

Financial strength/Performance

Data and facts on the following aspects were evaluated:

- Equity ratio.
- EBIT margin.
- Total shareholder return.
- Growth and volatility of cash flow.

Communication/Transparency

Data and facts on the following aspects were evaluated:

- Scope, contents, verifiability, topicality and feasibility of external publications on the subject of CSR.
- Scope, contents, verifiability, topicality and feasibility of internal publications on the subject of CSR.

Weighting

A total of 100 points could be awarded for each of the 80 selected companies.

However, different point values could be awarded for each of the individual sub-evaluations – with the result that the individual criteria had varying influence on the ultimate assessment. The maximum number of points for each of the individual criteria:

- Human resources 25 points.
- Community service 25 points.
- Environment 20 points.
- Financial strength/Performance 15 points.
- Communication/Transparency 15 points.

The points were awarded by the respective special task force for each of the individual criteria.

Benchmarks

The individual evaluation criteria listed above were evaluated by each respective special task force according to the same standards; i.e. each individual sub-evaluation had the same importance as the other detailed evaluation criteria.

ADVISORY BOARDS AND DECISION MAKING

In addition to the special task forces charged with evaluating the data and assessing the individual companies according to the disciplines listed above, there was an independent jury.

The members of the jury were (in alphabetical order):

- Dr Arno Balzer (chief editor of mm).
- Peter von Blomberg (acting chairman of the board of the German chapter of the anti-corruption initiative Transparency International).
- Professor Wolfgang Grewe (acting partner for Germany at the Deloitte auditing company).
- Klaus Kirchhoff (chairman of the board, Kirchhoff-Consult).
- Helmut Maucher (honorary president of Nestlé).

The jury was assisted by the heads of the various special task forces: Kaevan Gazdar (expert for human capital, 'Human resources' task force), Professor Dr André Habisch (head of the Centre for Corporate Citizenship, Eichstätt, 'Community service' task force) and Sam Vaseghi (Deloitte, 'Environment' task force). The areas of financial strength/performance and transparency were handled by special task forces under the leadership of Klaus Kirchhoff.

The special task forces informed the jury of the points they had awarded. A preliminary ranking was prepared on the basis of these points, and it was submitted to the jury for a plausibility and validity check. Following discussion with the heads of the special task forces, the final ranking was prepared.

The decisive meeting of the jury took place in Frankfurt in late November 2004.

FINDINGS

The final ranking list looked like this:[2]

1. BP (74.3 points)
2. Anglo American (72.0)
3. Deutsche Post (71.7)
4. BT Group (71.2)
5. Royal Dutch Petroleum (70.1)
6. Deutsche Telekom (69.8)
7. Nokia (68.1)
8. Royal Bank of Scotland (67.3)
9. BASF (66.8)
10. Henkel (66.0)

At the lower end of the ranking were such companies as Deutsche Börse, Assicurazioni Generali, Fresenius Medical Care, DZ Bank and the Edeka Group, with points ranging between 30.7 and 14.8.

DISCUSSION OF THE FINDINGS

The most surprising findings were as follows:

Two companies from relatively ‘dirty’ industries (oil and energy in the case of BP; mining and raw materials in the case of Anglo American) were at the top of the list, while comparatively ‘cleaner’ companies with ‘modern’, less socially controversial business models

[2] The complete table including rankings in the five individual disciplines is documented on the Internet, www.manager-magazin.de/unternehmen/csr/.

performed more poorly (e.g. financial service providers, the telecommunications industry, retail companies etc.).

The reason given for this was that in these ‘winning’ industries a number of public occurrences in the 1980s and 1990s led to the establishment of comprehensive CSR management – as part of risk management, as it were.

Following crises such as those of the Brent Spar oil platform in 1994, many oil and mining companies professionalised and systematically restructured their CSR activities – in most cases with the help of task forces set up specifically for this purpose. As a result, these companies already possess the relevant experience, and have built up a tradition of CSR management.

British companies performed considerably better than candidates from all other nations: four of the top 10 companies are headquartered in Great Britain. The number rises to five if one includes Royal Dutch Shell, which is registered in both the Netherlands and Great Britain.

The reason given for this was the traditionally strong role CSR plays in British companies. The terminology of corporate responsibility, according to Edward Bickham, executive vice president at Anglo American, is part of the ‘flesh and blood’ of his company’s managers. ‘These ideas are built into the company’s DNA’, he said (Kröher, 2005: 84).

In response to the environmental scandals, this tradition was very quickly and effectively professionalised in the 1980s. ‘We learned a lot from these conflicts’, said Graham Baxter, vice president for CSR at BP. ‘We understood that we can only achieve sustainable profitability by systematically running our company as good corporate citizens’ (Kröher, 2005: 85).

German companies performed comparatively well, with four German companies among the top 10 (Deutsche Post, Deutsche Telekom, BASF and Henkel). Aside from the British and German companies, only one other European firm ranked among the top 10, namely the Nokia group of Finland (7th place). French, Swiss, Italian, Spanish and other European companies listed on the Stoxx achieved much lower scores.

The reason given for this fact was the relative significance issues of corporate citizenship have had in Germany as compared with the above-mentioned countries – due to the traditionally strong role of the trade unions, but also the importance of environmental groups and other non-governmental organisations since the 1980s.

PUBLICATION

The findings of the study and the ranking itself were published in a major article entitled 'Good Company Ranking' in the February 2005 issue of *manager magazin* (Kröher, 2005). Since then, the term 'Good Company Ranking' has become established as a logo for the *manager magazin* CSR ranking.

The article was also published online (www.manager-magazin.de/unternehmen/csr/), along with the detailed results, i.e. the points awarded in the five individual disciplines which the special task forces and the jury used to evaluate each of the companies.

FOLLOW-UP AND CONSEQUENCES OF PUBLICATION

The 'Good Company Ranking' was discussed intensively within most of the companies evaluated. All in all, the findings found broad acceptance.

Many queries were subsequently placed to the editorial offices of *manager magazin* – regarding details of the evaluation, but also regarding conclusions to be made as a result of the ranking, e.g. with regard to the respective competitors.

From the point of view of mm, this dialogue showed that in conducting and publishing the 'Good Company Ranking', the magazine had once again fulfilled its goal of critical reporting – also when it comes to issues of ethical business management and the social responsibility of companies.

In June 2005, *manager magazin* hosted a round table discussion on the subject of CSR management in Germany. Held at the Petersberg conference centre in Bonn, the event was attended by top managers from the German companies that had performed best in the 'Good Company Ranking', including Klaus Zumwinkel (chairman of the board of Deutsche Post), Ulrich Lehner (chairman of the board of Henkel), Gunther Thielen (chairman of the board of Bertelsmann), Claus-Michael Dill (chairman of the board of Axa Deutschland), Alfred Tacke (chairman of the board of Steag) and others.

Excerpts of the round table discussion appeared in the August 2005 edition of *manager magazin* (*manager magazin*, 2005).

NEXT STEPS, FUTURE GOALS

manager magazin intends to conduct its 'Good Company Ranking' in a similar manner and with similar criteria every two years, and publish the findings in the February edition of every 'odd' calendar year (e.g. February, 2007, February, 2009).

In the next evaluation – data analysis in the second half of 2006, publication in February 2007 – the sampling will be increased to 100 companies, with a similar ratio of international companies as in the previous study.

Other improvements, particularly in the area of the scientific methodology, are already being planned by the partners and associates. There is also discussion of expanding the jury to include renowned personalities from the scientific, social and political communities.

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CHAPTER 23

The Caux Round Table: Taking CSR from Aspiration to Action

Stephen B. Young and Frank Straub

HISTORY

The Caux Round Table (CRT) was first convened in 1986 by Frits Phillips and Olivier Giscard d'Estaing at Mountain House in Caux, Switzerland. Attractively perched high on the Alps above Lake Leman, Mountain House had served as a venue for gatherings intended to reconcile French and German leaders after World War II. These gatherings were facilitated by volunteers such as Frits Phillips who were part of the Moral Re-Armament movement for change and reform. The dialogue helped increase confidence in a European identity among the French and German participants, a confidence that led to the creation of the European Coal and Steel Community, which united former ethnic adversaries behind a programme of common interest.

The ICCA Handbook on Corporate Social Responsibility Edited by J. Hennigfeld, M. Pohl and N. Tolhurst

In 1986 Frits Phillips sought to replicate such a positive outcome from dialogue, this time between Japanese, European and American business leaders. Together with his colleague Olivier Giscard d'Estaing, he invited leading industrialists from Japan, Europe and the United States to meet at Mountain House for a discussion on trade restrictions already imposed or threatened in response to Japan's rapid economic development and success in manufacturing for export. The group resolved that good, constructive business practices should not be constrained by politicians, that such political constraint prevented wealth from being created for the benefit of humanity, but also that companies had an obligation to conduct their business affairs with honour and integrity.

Participants in the discussions agreed to meet annually to keep their resolve alive and fresh. Thus, the Caux Round Table was established.

On his retirement, Frits Phillips was succeeded as convenor of the CRT forum by Ryuzaburu Kaku, then chairman of Canon Ltd. Mr Kaku brought to the ongoing dialogue a philosophy of business management that he referred to as *Kyosei*. He advocated *Kyosei* as a guide to decision making to help businesses be not only profitable but also constructive contributors to society. The key premise of *Kyosei* is that business and society exist in a mutually supportive, living and organic relationship. Without good business, society remains deprived and offers only limited opportunities to its members; without good society, business lacks good employees, financial investment, eager customers, robust laws and a cultural tradition of trust and reliance.

Mr Kaku argued that business must foster its relationships with various supporting constituencies if it wanted to maximise its profitability.

In early 1992, Mr Kaku presented his strategic management philosophy to a meeting of business leaders in Minneapolis, Minnesota. He received a warm and empathetic response. At that time, Robert MacGregor, who had championed efforts by the business communities in Minneapolis, Kansas City and Chicago to improve inner-city conditions, was working on a project to publish a set of guidelines for conducting business. The resulting Minnesota principles reflected both the stakeholder approach of American teaching on business ethics and the old Yankee/Calvinist, New England traditions of community stewardship, which had been handed down in several leading family-run companies such as Dayton-Hudson in Minnesota.

In summer 1992, MacGregor travelled to Mountain House for the CRT Global Dialogue together with Charles M. Denny, CEO of ADC Telecommunications, and several other Minnesotans. They proposed that the CRT participants should draft a global set of principles incorporating *Kyosei* and the substance of the Minnesota guidelines. Several Europeans suggested that any proposed set of principles should also incorporate the ethical concept of 'human dignity' best expounded in the social teachings of the Roman Catholic Church, particularly in papal encyclica such as *Centissimus Annus*.

The European proposal was accepted and two years later, in 1994, the Caux Round Table Principles for Business were published. This set of guidelines for business decision making embraced *Kyosei*, the concept of human dignity and the American concern for stakeholder relationships. The CRT Principles for Business comprise seven general principles and a set of obligations for each of six distinct stakeholder constituencies: customers, employees, owners and investors, suppliers, competitors and communities. These Principles represent the most comprehensive set of guidelines on ethical and social responsibility available to businesses today. They are furthermore the only such set of guidelines drawn up by business leaders.

Drawing on intuitive analyses of human interdependency, such as *Kyosei* and the concept of human dignity, the CRT Principles for Business embrace the key ethical teachings of the world's religions. Informed by the revelations of the Koran, the insights of Confucius, the Laws of Manu and the prayers of Shintoism, they envisage streams of ethical responsibility and obligation flowing in parallel lines towards a common purpose: justice.

But business is not exclusively a moral enterprise. It is this-worldly and very materialistic in its ambitions. Accordingly, principled business decision making must both reconcile and integrate ethical sensitivity and profitability. The first CRT Principle for Business states that business must be profitable in order to make its necessary and special contribution to society, namely the creation of wealth. Being profitable is as much an obligation incumbent on business as is serving stakeholders with fairness and wisdom.

Management's leadership skills are challenged by the need to reconcile the conflicting demands of ethics versus short-term profit, customer demand for low prices versus employees' demands for higher wages and owners' demands for high returns. No calculus exists to provide easy answers, and manifold are the temptations to take short cuts that promise selfish advantage but also harbour a risk of third-party harm or loss.

The proper calling of business leadership is an arduous one indeed.

By the late 1990s, CRT participants had recognised that offering a set of principles could be only the first step in improving the moral quality of global capitalism. Efforts were therefore made to develop a comprehensive decision-making framework to help business executives shoulder their various and conflicting responsibilities. Phase two of the CRT's work in promoting more ethically and socially responsible business practices had begun.

In spring 2000, the CRT's Global Governing Board established a working group to investigate the development of metrics in order to help managers implement the Principles for Business. The approach suggested initially reflected the tests applied to companies by socially responsible investment funds and the Global Reporting Initiative. Under this semi-inquisitorial approach, company outputs are measured against defined standards of good conduct, and companies that manufacture alcohol products or weapons, sell tobacco or invest in Myanmar are judged to have failed to meet the minimum standards of responsible conduct.

Members of the CRT working group, however, were not satisfied with an approach that does not sit comfortably with management skills and management obligations. Business managers are responsible for setting and achieving goals. The incentives to which they respond with a personal commitment to act are forward-looking and geared to intended results. Managers cannot work well in a retrospective environment where their achievements are second-guessed from the perspective of outsiders or with the benefit of hindsight after new concerns have come to the fore. Market behaviour is prospective in nature, with the needs of others being taken into account in advance as part of the entrepreneurial risk.

The goal of the CRT working group being to encourage implementation of the CRT Principles for Business, there was clearly a need for a framework that business managers would recognise as being user-friendly.

The CRT working group therefore turned its attention to the achievements of the quality enhancement movement of the 1980s. This movement had succeeded in translating previously intangible dimensions of quality into tangible management objectives by means of a rigorous analytical process of continuous improvement, which resulted in better quality, more satisfied customers and, in many cases, lower production costs.

The CRT working group proceeded to develop a self-assessment and improvement process based on the approach used for the Malcolm Baldrige Award application process in the United States. To apply for a Malcolm Baldrige Award for quality, a company has to evaluate itself using three criteria: (i) its approach to quality; (ii) how it deploys this approach in attaining specific management objectives; and (iii) the results it achieves in respect of each such objective.

By June 2002, the CRT working group had drafted a set of 275 questions to serve as a framework for assessing the extent to which a company: (i) used the CRT Principles for Business as its fundamental business approach; (ii) deployed its assets and staff to ensure implementation of the CRT Principles; and (iii) what practical results it had achieved. The 275 lines of inquiry in the CRT's new CSR approach to management include all the data items covered by the Global Reporting Initiative and many more besides. The CRT's approach is broad-based, encompassing all the dimensions of the seven general principles and the interests of all six fundamental stakeholder constituencies. See Appendix to this chapter.

The new CRT process could equally be described as taking an inventory of strategic assets – those assets of a company that enable it to achieve high levels of *Kyosei*, human dignity and stewardship. Indeed, under the CRT approach, acquisition of such strategic assets also helps the company to generate sustainable profits, there being a strong affinity between profitability and responsible conduct. The CRT approach to business decision making is described more fully in the book *Moral Capitalism* by Stephen B. Young, global executive director of CRT.

Then CRT chair, George Vojta, suggested that the proposed inquiry, inventory and improvement process could be of great interest to boards of directors. The information acquired through the inquiry process would enhance the ability of company boards to supervise the strategic growth of their enterprises. Vojta also suggested that a short inquiry form would be less onerous for busy senior managers. The working group quickly drafted a short executive summary of the inquiry questionnaire.

The CRT recommendations evolved into a governance process for every company committed to corporate social responsibility. Good governance rests on two pillars – diligent inquiry into facts and values and the setting of proper goals and objectives.

In Japan the CRT governance methodology was introduced under the name 'CSR Innovation System' in order to appeal to

Japanese business leaders more open than ever to the need to rethink Japanese business practices. Outside of Japan, the governance methodology is being marketed as 'Arcturus' – the name of a star – with a view to focusing attention on the need to aim high when setting goals for business performance.

ARCTURUS/CSR INNOVATION SELF-AUDIT

Once the working group had developed a preliminary version of the Arcturus/CSR Innovation, CRT launched so-called 'beta tests' in order to determine just how this tool might contribute towards enhancing management practices within practical applications of the CRT Principles for Business.

Beta tests were conducted in Japan, the US and Europe. In Germany, the first test of Arcturus ethical inventory was carried out in 2004 by BLANCO, a private company and leading manufacturer of kitchen technology and catering and medical systems. BLANCO has sales of €293 million and 1700 employees. The company has been an active member of the Caux Round Table since 1994.

Anyone addressing the issue of business ethics soon realises that although there is no shortage of theory, hardly any practical tools are available to facilitate ethical decision making in the business context. Infusing ethical theory into practical business realities is precisely what the Arcturus management approach aims to achieve. This makes the CRT a possible spiritual home for all those in business who acknowledge corporate social responsibility as being a relevant dimension of business success.

Being ethical in their personal conduct and leading by personal example are important requirements for individual senior managers, but these factors alone are not strong enough to penetrate large and complex organisations and infuse in them the values set out in an abstract code of corporate conduct. So much fine-tuning is required to ensure consistent ethical conduct throughout an organisation that only a systematic approach using a practical tool like Arcturus can offer hope of success.

The CRT self-audit tool Arcturus not only allows for a valuable comparison to be made between the inside view of your company and the view held by external stakeholders. Arcturus can also expose shortcomings in your organisation and indicate what needs to be done to rectify them in terms of appropriate behaviours, practices and motivations.

One compelling reason to audit your company is that ethical behaviour pays. The correlation between enhanced profitability and a high standard of conduct has been demonstrated by several surveys, including research conducted by the Institute of Business Ethics in the UK.

Even the mere fact that a company has committed to self-assessment in terms of corporate social responsibility has a positive impact on the motivation of its employees and on the perceptions of that company held by external stakeholders such as customers, suppliers and the public at large.

For its beta test BLANCO engaged in a first collaboration with a university in order to implement its Arcturus self-audit. University students, not BLANCO employees, conducted interviews with stakeholders to provide a basis for assessing BLANCO's degree of compliance with the CRT Principles for Business. BLANCO found that arranging for external moderators for the interviews and external documentation of the results not only ensures greater objectivity in the self-assessment process but also lends greater credence to the results.

BLANCO's beta test was supervised by Professor Noll, Professor of Ethics at Pforzheim University, and conducted by four masters degree students with Tim Ortmann in the lead position. The students translated the Arcturus questions from English into German and modified some questions in the original American draft to take account of specifically German needs.

Any ethical assessment – whether self-administered or by a third party – must take local laws and practices into account. The business environment in Germany is not the same as in the United States or Japan, with differences particularly noticeable in terms of environmental and employee protection.

The BLANCO beta test took about four months to complete. The first step in the process required the president of BLANCO to complete the executive survey version of Arcturus. Completing this survey took only about three hours and provided a benchmark for later use with respect to the ratings assigned to BLANCO by the various stakeholders. In the BLANCO case, the scores given by the president in the executive survey turned out to be very close to those given by the stakeholders. This concurrence was not particularly surprising as BLANCO's president, Frank Straub, who is also the grandson of the company's founder, Heinrich Blanc, had served the company for almost 30 years and was very familiar with the company's situation and culture.

The Arcturus process was implemented in the following steps and generated the following results.

The audit team considered that the initial rating system proposed by the Arcturus instruction manual, which entailed rating the ethical performance of a company using only one numerical value, was not sufficiently comprehensive to reflect the complexity of ethical interrelations within that company. The team therefore developed and used an additional four-point scale to rate the results of the audit:

1. Good ethical awareness and compliance.
2. Possible areas of future ethical conflict.
3. Critical practice or unethical behaviour.
4. Insufficient data or no statement possible.

In addition, the student audit team adapted the Arcturus questionnaire to the German business context and to the special situation within which mid-size companies such as BLANCO operate. The team thus developed a four-point framework for analysing a company's ethical awareness:

1. Identifying relevant sub-groups within each stakeholder category.
2. Defining and executing process steps.
3. Extracting ethically relevant results.
4. Evaluation of results.

These four steps were expanded to encompass a more detailed set of issues before the Arcturus questionnaire was used with stakeholder constituencies. The following example illustrates the analysis of the stakeholder category 'employees'.

1. **Identifying relevant sub-groups within the stakeholder model**
   The study should consider only those stakeholders that fall within the relevant sub-groups. Once the relevant sub-groups of stakeholders have been identified they are clustered prior to analysis. The stakeholder category 'employees', for example, is acknowledged as a heterogeneous group encompassing a range of value and management cultures. The category therefore has to be subdivided into sub-groups with similar backgrounds and viewpoints, such as blue-collar workers and white-collar workers. Other differentiations made included the different business units (kitchen technology and catering and medical systems) and different locations. These distinctions are needed in order to fully and thoroughly understand the results.
2. **Defining and executing process steps**
   For the stakeholder group 'employees', the Arcturus student audit team first scheduled a kick-off workshop with part of the management team to review the questions and define areas requiring more detailed investigation. Extensive interviews were then conducted with the staff executives, the works councils of the various business segments, the health and safety officer,

and the employees working in the various plants. Finally, the questionnaire results from the different plant and office locations were reviewed in the presence of a supervisor. This process was considered to ensure sufficient sensitivity to the different points of view encompassed within the stakeholder category 'employees'.

3. **Extracting ethically relevant results**
   Following collection of the data, the student audit team extracted the results ethically relevant to the audit. These ethically relevant results were then divided into matters concerning the employee as an individual and matters concerning the employees as a constituency within the company. In the case of the former set of matters, the factors considered to be of major importance in the ethical treatment of this sub-group included information sharing, inclusion in performance enhancement review and levels of job satisfaction. In the latter set of matters, those concerning employees as a constituency, the predominant factors identified included cooperation with the works council and the day-to-day working culture.
4. **Evaluation of results**
   In our example of the 'employees' as a stakeholder category at BLANCO, the student audit team found that the employees were respected and kept well informed of decisions affecting the company as a whole. There was evidence of an honest effort by the company to promote trust and transparency, people were generally approachable and open to constructive criticism, and management was rated as being cooperative and sensitive towards the employees' needs. The company also valued, encouraged and enabled self-development and learning on the part of its individual employees.

As was the case with the stakeholder category 'employees', the student audit team subsequently found that BLANCO generally scored well in good ethical problem solving across all stakeholder groups. An example of this ethical sensitivity is the company's 'three bottles of wine' rule for accepting gifts from external sources (suppliers, contractors, etc.), which has long been in place and has been forcefully communicated to employees. These positive results could be interpreted as stemming from the values that have long been part of BLANCO's traditionally strong, family-driven corporate culture.

However, the Arcturus audit also revealed a few sensitive areas with potential for future ethical conflict. These areas were identified mainly where no specific rules of conduct had been laid down. For example, in contrast to the 'three bottles of wine' rule, the company has no written rule defining limits on gifts made to external contacts. The student audit team recommended action in these minor areas and highlighted the need for management awareness of the possibility of future abuse.

The audit detected no critical violations of ethical practice. In a few isolated areas, time and resource constraints prevented the award of a final rating. The use of an independent, external auditing team ensured that the results were objective. However, although more objective in making assessments than insiders would be, any external team obviously lacks the deeper insight normally held by the company management. For this reason, a combination of both an internal audit team and at least one external moderator is recommended for future ethical audits.

When the Arcturus beta test was completed, the results were presented to the senior employees, the board of non-executive directors, the shareholders and the Caux Round Table. The audit results were subsequently made public at an event held in Stuttgart in January 2005, attended by over 100 people.

An active commitment to business ethics is more highly appreciated today than ever before – both inside and outside a company. Paying attention to a corporation's social responsibilities is especially well accepted by the media. Doing good and then talking about it is therefore a contribution to the reputational capital of a business. The positive response to undertaking an ethical audit is another example of how being ethical pays.

APPENDIX: CAUX ROUND TABLE ARCTURUS CORPORATE SOCIAL RESPONSIBILITY INQUIRY PROCESS GLOBAL REPORTING INITIATIVE

Guide to using Global Reporting Initiative (GRI) report items when completing the CRT Self-Assessment and Improvement Programme

CRT PRINCIPLES FOR BUSINESS IN SELF-ASSESSMENT AND IMPROVEMENT QUESTIONNAIRE FORMAT

CRT Principle 1: Responsibilities of Business
1.1
1.2 GRI 6.59, 6.95, 6.96
1.3 GRI 6.48, 6.49, 6.50, 6.60, 6.61, 6.69, 6.70, 6.71
1.4 GRI 6.37, 6.38, 6.39, 6.40, 6.41, 6.42, 6.43, 6.46, 6.47
1.5 GRI 6.58
1.6
1.7

CRT Principle 2: Economic and Social Impact of Business
2.1
2.2
2.3 GRI 6.44, 6.53, 6.74, 6.75, 6.76, 6.77
2.4 GRI 6.45
2.5
2.6
2.7 GRI 6.51, 6.53

CRT Principle 3: Business Behaviour
3.1
3.2
3.3 GRI 6.22, 6.63, 6.65
3.4
3.5
3.6
3.7

CRT Principle 4: Respect for Rules
4.1 GRI 6.36, 6.85, 6.86, 6.88, 6.89
4.2
4.3 GRI 6.72, 6.73, 6.78, 6.79, 6.80, 6.81, 6.82, 6.83, 6.84
4.4
4.5 GRI 6.25, 6.55, 6.92, 6.93
4.6
4.7 GRI 6.90, 6.91

CRT Principle 5: Multilateral Trade
5.1
5.2
5.3
5.4
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