Summary

- Growing demands for broad-based corporate accountability and progress on sustainability are driving significant back office investment, but there is an opportunity to create shareholder value from these investments.

- Good understanding of the growing forces for accountability and sustainability is important for individual companies’ competitiveness, but also to rebuild the public’s trust in the business community.

- Few companies have yet made much progress integrating accountability and sustainability throughout their business. Accountability is dominated by shareholder relationships; sustainability tends to be trapped in a specialist silo. Reporting and code compliance capture most attention, at the expense of learning, innovation, sustainability strategy development and integration in business processes.

- Generating value from accountability and sustainability requires a significant shift in thinking to understand the value opportunities. That needs to begin with leadership from the top to develop an accountable culture.

- The culture needs to touch all areas of a business, so that people at all levels and in all functions take a broader view of accountability.

Some challenges

- How to develop incentives which reward progress on integrating sustainability and accountability?

- How best to demonstrate to stakeholders that commitment to sustainability thinking is real and not public relations spin?

- How to ensure that engagement with stakeholders brings value to the business?

- How to engage people at all levels in the new mindset?

The opportunity

The crisis of trust in business is impossible to ignore. The rash of scandals since the end of the 1990s has provoked widespread public and shareholder protest, and induced regulators and legislators to pass measures such as the Sarbanes-Oxley Act and the EU 8th Directive. Yet even with these new safeguards, who trusts business to do the right thing? Not many, as surveys such as Globescan’s demonstrate – across 20 countries at the end of 2003, non-governmental organizations (NGOs) were once again the most trusted bodies, and global companies the least.

Demand for broad-based corporate accountability has grown exponentially over the past decade. Business has begun to respond with greater transparency, but society wants more. The demand is for more than financial accountability – companies are also asked to open up about their ‘sustainability’-related impacts, while separately,
Power has already shifted from the corporate boardroom to company-stakeholder interactions as businesses have become networked organizations subject to multiple forces, rather than monolithic entities largely in command of their own destinies. As a result, accountability could be as crucial an issue for business in this decade as quality was in the 1980s and 1990s.

Understanding society’s changing expectations is crucial to finding commercial opportunity and avoiding erosion of value. Significant back office investments are being made to comply with increasing demands for accountability and sustainability. There is an opportunity to create shareholder value with these investments, not just avoid value destruction.

This project examined changing expectations around accountability and sustainability and explored how companies might find value in the overlap between these twin forces. Both areas present businesses with new stakeholders and new connections. There are implementation challenges but also the opportunity to realize business value.

The key is to think positively and creatively about accountability and sustainability. Like judo experts who use an opponent’s weight to their own advantage, business needs to capitalise on these developments to create opportunities rather than merely submit to them. By bringing together sustainability champions, those responsible for complying with new accountabilities and those with market facing roles, companies can generate better market information and could transform what would otherwise be seen as a back-office compliance burden into value-creating activity.

For example, Alcan is using the recent issuance of extensive disclosure reporting requirements, coming out of US Congress, security exchange commissions and various US regulatory bodies, to further enhance its financial reporting and internal controls, long recognized as being of high quality. (e.g. Alcan converted its primary financial reports to US GAAP – enhancing disclosure, making it more comparable to its peer group, becoming more transparent and ultimately creating long term value). Vodafone has identified new demand to improve performance related to those impacts has also grown. Initiatives such as the UN Global Compact and the OECD Guidelines for multinationals show how companies are being held to account more formally than ever before – on a global basis.

“minority” markets (people with disabilities) by adopting a creative approach to responsibility in this area. Both Alcan and Vodafone turned what could have been viewed as risks and constraints into new market opportunities and competitive advantage. Westpac has also taken a broader view of its accountabilities as an employer and generated new insights from a better understanding of Australia’s demographics. This resulted in the identification of additional recruitment pools that enabled the company to meet its employment needs while creating jobs for segments of the population that had not previously been targeted.

The push for disclosure, transparency and accountability offers a chance to build fresh trust in business and to develop new opportunities. Our work with almost 80 member companies suggests that this new accountability can help businesses integrate sustainability thinking into core business processes to create and protect shareholder value. As one WBCSD member company puts it, this is about “licence to grow”.

**Accountability and sustainability today**

The corporate governance reforms of the past few years, together with increased shareholder activism, have helped to make boards more accountable to shareholders and focused on shareholder value. But this strengthened accountability to shareholders threatens to overwhelm other stakeholder relationships, creating an accountability deficit and an imbalance in stakeholder influence. Meanwhile sustainability seems trapped in a specialist silo, preoccupied with systems and processes rather than strategy and core business.

The majority of companies who participated in this project focus most effort on the ‘systems and processes’ dimension of sustainability. They are implementing management systems and codes of conduct and producing sustainability reports to meet codes and standards such as GRI, the UN Global Compact and AA1000. As such, it appears that the tail of reporting and code compliance has been wagging the accountability dog. This kind of compliance approach means that companies are failing to seize value opportunities.

Promoting transparency and responsiveness provides a holistic means of addressing a company’s responsibilities to a range of stakeholders. But so far, few companies seem to recognise that. Based on WBCSD members involved with this working group, few companies today embrace sustainability as a business management tool in the way they have used total quality management (TQM), business process redesign (BPR) or other comprehensive approaches to drive shareholder value. In fact sustainability is treated, even by many WBCSD companies, in a piecemeal fashion. It is seldom integrated with the high-level policies and mechanisms that drive managerial behaviour, such as performance assessment and incentive schemes.
A recent assessment published by the professional association AccountAbility concluded that even the world’s largest companies are failing to create value here. In particular it said stakeholder engagement fails to produce real learning for companies, and that business strategies and performance management systems are not aligned with sustainability.

CEOs such as Phil Knight of Nike and Bob Shapiro of Monsanto have been brave enough to acknowledge that they failed to understand they were accountable beyond legal compliance and short-term financial returns. Their experiences show that the forces of accountability and sustainability mean companies need to “do more good” as well as being less bad, and learn from engagement with stakeholders.

Understanding new accountabilities
Creating business value from accountability and sustainability requires an understanding of what they mean – at the level of strategy but also for managers at all levels and in all functions within a company.

Accountability is about understanding responsibilities, facing up to them and being responsive to stakeholders. Sustainability is about enhancing long-term social, environmental and economic impacts. Ideally, companies should use these two forces to drive cross-functional, beginning-to-end, long-term thinking to create shareholder value.

Accountability forces come from four broad spheres of influence. Managers need to ask four key questions to understand how best to respond.

Their freedom to operate is subject to influence at four levels, shown in Figure 2. First, every company has its own values and practices and internal accountabilities. Second, managers must work within laws and regulations covering many aspects of their operations. These are the accountabilities managers are used to dealing with, although they have expanded with the rise in importance of sustainability to embrace issues such as carbon dioxide emissions and employee diversity.

The broader accountabilities in the two outer spheres of influence have become much more significant with the growing pressure for accountability and sustainability. First, markets (including financial markets) demand more accountability and, in some cases, reward companies that address sustainability, seen for example in the dramatic growth of socially responsible investment and “fair trade” products. Finally, in the outer sphere, societal pressures on companies have grown and broadened, often conveyed by campaigning NGOs.

CEOs feel these pressures when employees protest against lay-offs, communities complain about local disruption or pollution, regulators mandate new standards and financial markets push for better performance and governance. They also come from inside and outside to affect managers at every level in the company.

To understand the impact of each sphere of influence for their own responsibilities – what the pressures and interrelationships are, how best to respond – managers need to ask these four questions:

> What am I accountable for?
> Who am I accountable to?
> Why should I be accountable? (What’s the benefit?)
> How can I discharge my accountabilities?

For example:

- A supply chain manager may be formally responsible for ensuring compliance with a standard such as SA8000 in immediate suppliers’ factories, but may also need to work less formally to develop appropriate values further up the supply chain.
- An HR director will be accountable internally for developing the skills of the workforce, but will also need to be able to respond to “the market” in the context of company reputation and the “war for talent”.
- In finance, managers may face conflicting accountabilities for profitability – financial markets may focus on short term results but society will not forgive actions that negatively impact the long term.

Understanding and responding to these forces can help a company expand its thinking, making it more resilient, helping managers be more forward-looking, alert to social and environmental risks and opportunities rather than reacting to threats.

For example, it can take years to win approval for new capital projects ranging from mine workings to airport terminals. Heathrow’s fifth terminal took an excessive 23 years to build. A trusted company that has a reputation of being open, honest and responsive to community concerns can cut years off the approval process to gain competitive advantage, as companies such as Rio Tinto and Anglo American have shown. Companies in this project provide other examples of how answering accountability and
sustainability questions have helped them preserve and create value:

- The Norwegian consultants DNV helped a client concerned about human rights issues around the supply of construction materials. The company was responding to the “Society” sphere of influence, protecting value against the threat from any public criticism of the high-profile project. It turned out that the stone had been carved by starving children in Asia.
- Novozymes, the biotech company, has recognised its accountability to society for its involvement in genetic engineering. The value lies in retaining a “licence” to innovate, operate and market the products. “It is important to be in a position to be able to enter the debate, and to be trusted, and to learn from stakeholders, while bioethics and regulations are being developed,” the company says.
- PricewaterhouseCoopers has recognised that diversity not only responds to social demands but is also a business imperative, because it broadens the firm’s knowledge base and talent pool and helps the firm reflect the diversity of clients and society at large.

**Being Accountable – how to get from here to there**

Generating value through accountability and sustainability responses requires a significant paradigm shift in thinking. It requires an approach to rules and regulations (such as Sarbanes Oxley) that sees them as opportunities rather than an additional requirement for “business as usual.” Imagine the potential of harnessing profitable growth from these “cost of doing business” resources.

This needs leadership. The board needs to show leadership in facing up to social and environmental responsibilities, integrating sustainability in business strategies, and developing an accountable culture that embraces openness and responsiveness, and which will reward achievement in sustainability and accountability aspects of the business. The result should be a forward-looking and outward-looking company, rather than one that is introverted and defensive.

This approach demands a new perspective on accountability – both externally and internally. Externally, companies need to consider moving beyond publishing routine, ‘going-through-the-motions’ reports on social and environmental impacts and starting to think about accountability to stakeholders with the same seriousness they devote to shareholder accountability. Internally, companies need to consider streamlining accountability structures and processes and integrate sustainability into high-level policies and mechanisms that drive managerial behavior, such as performance assessment and incentive schemes.

Broadening accountability can build on existing mechanisms. It requires a shift in thinking but does not necessarily require a new set of tools or processes. Existing tools for external and internal accountability can be adapted to integrate sustainability.

Public companies understand the traditional accountability process very well – much better after the increased emphasis of the past few years on accountability to shareholders. Essentially the process of accountability for financial issues to shareholders consists of four elements: engage, understand, respond, and test responses. The same process can be applied to other stakeholder groups, addressing social and environmental issues, among others.

But accountability is clearly not just about process. It has to be based in an appropriate culture, which is essentially humble, acknowledging limitations and the value of external insights. Managers also need the right competencies to deal with an expanded view of accountability. They need to be equipped and supported to explore a broader range of value - and understand where value might lie at different levels in the company (e.g.; from the executive suite to individual operating facilities, and in various functions). It is not something that can be instilled overnight. It is a learning journey that begins with the right culture and continues with growing awareness and understanding as it is integrated in management processes and strategies.

The goal is to integrate accountability and sustainability. Rather than seeing these as separate and or specialist activities, companies should begin to bring them into routine activities at every level and in every function.

Broad accountability is here to stay, and these examples show how those who can make the necessary paradigm shift can seize the opportunity. Companies that wait for requirements to be codified will risk losing their market positions. On the other hand, those who are ahead of the curve will develop both systems and process and capability and capacity to address the newly emerging accountability issues. That will give these leaders a competitive edge as they move from a reactive stance which views accountability as a compliance issue, towards anticipating stakeholder needs and addressing them to create value and rebuild trust.

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