Chapter 8

Successful Companies Ensure Effective Board Governance, Engage Stakeholders, and Collaborate with NGOs and Each Other

> We are given our identities by other persons and other things. We are named by everything we ever knew and by everything we ever did.
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> —Amos Oz and Fania Oz-Salzberger [1]

Defeating poverty, mitigating the pace of global warming and the destruction of natural ecosystems, and advancing education, healthcare, and human rights are ambitious goals. National governments do not have the authority and resources to offer sufficient solutions, nor has the international community achieved binding and actionable agreements to address global problems. Only multinational corporations have the might, the financial motivation, the worldwide influence, and the long-term wherewithal to accomplish these purposes. Furthermore, businesses that are leading the way are showing that innovative solutions to social, environmental, and economic challenges can be profitable.

Multinational companies at the sustainability forefront also understand that there are three keys to success: First, ensuring effective board governance of the company's sustainability strategy and achievements; second, engaging with stakeholders, including customers, employees, investors, and communities, in an iterative conversation on global problem-solving; and third, collaborating with other companies and NGOs to advance the company's sustainability agenda. This chapter will provide best practices in these areas.

Effective Board Governance

The board of directors has the legal and fiduciary responsibility to ensure the company's prosperity. As shown in this book, risks in the twenty-first century include scarcity of resources, high costs of fossil fuels, labor conflicts, community resistance resulting from human rights abuses, and the lack of a qualified workforce for high technology jobs. As also presented in this book, growth opportunities abound for companies that pursue innovative solutions to global challenges. These are boardroom issues.

Since accountability for the company's sustainability strategy rests with the board, it is essential for the board to have a sustainability committee to help facilitate oversight. The board should receive and review reports from the committee to fulfill its own duties of oversight, and also know that management incentives and practices are aligned with sustainability goals.

Sustainability Is a Matter for Board Oversight

Given the centrality of sustainability to the vitality and value of the company, there are a number of key considerations for the board of directors. These are some of the more significant issues for board members to understand.

1. How the sustainability agenda will drive innovation, growth, and profits.
2. Risks, including environmental (energy, and natural resources, among others) and social (labor, and community, among others).
3. The company's policies and practices related to disclosure and transparency in order to support stakeholder engagement, promote trust, and foster communications and relationships with customers, employees, investors, and other stakeholders.
4. Accountability systems and management practices to ensure that ongoing evaluation, metrics, and incentives (including compensation practices) are in place so that sustainability goals have the highest likelihood of success.
5. Plans for reporting on sustainability goals, progress, impediments, and remedies to the board of directors.

Board Composition

In order to ensure that a company is competitive in the global marketplace, it is important for boards to be composed of people with the diversity of experience, expertise, and perspectives to address the most vital challenges and opportunities. Boards that are entrenched with minimal turnover, homogenous composition, insufficient numbers of members who grew up in the Internet and advanced technology era, and/or few or no international members and women, run the risk of missing opportunities to advance the company by fully embracing innovation and capturing new markets.[2]

Board Committees

It is a best practice for the board of directors to have a committee specifically designated to oversee the company's sustainability strategy and its performance, and to discuss it with the board. Unilever's board, for example, has a "corporate responsibility committee." Its role is to "oversee Unilever's conduct as a responsible business, including monitoring the progress—and potential risk—of the Plan and ensuring this is fed back to the Board." Unilever's board committee meets quarterly and is composed of three non-executive directors.[3]

Nike also has a corporate responsibility committee of the board of directors "to review significant policies and activities and make recommendations regarding labor and environmental practices, community affairs, charitable and foundation activities, diversity and equal opportunity, and environmental and sustainability initiatives."[4] Nike's board committee meets four times a year and is composed of four non-executive directors. Nike's committee meetings are attended by the company chairman or CEO.

It is important for the committee to have a clearly defined role, to meet on a regular basis, to be composed of non-executive directors with relevant expertise, and to be joined by the CEO or chairman at meetings. The chief sustainability officer should be responsible to the committee.

Companies Maximize Sustainability Results by Engaging with Stakeholders

A company will maximize its social, environmental, and economic impacts by engaging with key stakeholders for meaningful input. Stakeholders include, among others, customers, employees, investors, and communities where the company operates.

Stakeholder Engagement

The hallmark of an effective sustainability program is its engagement with a variety of stakeholders in meaningful discussions about company decisions that will have social, environmental, and economic impacts. Examples might include the location or relocation of a major facility in an emerging market, the sourcing of natural resources from a particular geographic location, pricing a product that will affect a segment of the community that is price-sensitive, or creating a new product or service that is designed to address a social or environmental challenge. Companies involve stakeholders in a variety of formats, including large and small group discussions—sometimes scheduled for a couple of hours, or up to two full days. Sessions are often facilitated by outside professionals, who bring expertise and a fresh perspective

The wisdom of involving stakeholders lies in understanding that in today's communications environment, stakeholders will ensure that their voices are heard, whether they are invited or not, and they can make themselves heard quite publicly—very possibly throughout the world in a matter of moments. Companies are learning that it is to their benefit to welcome stakeholders to the table and incorporate their valuable input as they make critical strategic business decisions.

Businesses are also realizing that it is smart to have continuous, ongoing conversations with community stakeholders in order to avert conflicts on human rights, where human lives and billions of corporate dollars can be at stake.

Building good will with communities where employees live and work helps ensure that employees are motivated, and that local citizens, businesses, and organizations are supportive. This, in turn, helps to ensure that the company will profit through higher productivity, a good brand, and increased sales.

Global corporations are also recognizing the value of creating stakeholder advisory councils (SACs) or enhancing the role and functionality of their existing SACs. With SACs, companies can convene a small group of highly qualified experts together with the company's executives for candid discussions about corporate strategies and their implications for social, environmental, and economic impacts.

Several of the companies featured in this book have stakeholder advisory councils. They practice a range of approaches with regard to their composition, frequency and duration of meetings, and agendas. Based on observations of numerous SACs, these are good practices for corporations in establishing or strengthening SACs.

1. *Determine the company's vision* of its greater potential in terms of its social, environmental, and economic impact. Again, this must be aligned with the corporate mission and goals. And again, review this at least every other year, or with a change in company leadership.
2. *Determine the SAC's purpose*—the compelling value the sustainability advisory council (SAC) will be tasked to achieve. This must focus on the company's goals for sustainability, including being fully aligned with the corporate mission.
3. *Establish the role and responsibilities of the SAC*, based on its purpose, and articulate how council members are expected to help advance the company in achieving its greater potential with regard to sustainability. Most companies are very clear that the role of the council is strictly advisory, with no oversight.
4. *Determine the ideal composition*, based on the role of the SAC. Consider what will be required to achieve the best results including diversity of perspectives, experience, and expertise.
5. *Determine the number and duration of meetings* to accomplish the SAC's purpose.
6. *Create thoughtful and purposeful agendas* based on the role of the council and the company's key sustainability challenges and opportunities.

As one experienced SAC member noted, "Through discussions with SAC members, the company's CEO can have an unfiltered, candid, and confidential conversation about the future of the business."[5]

7. *Plan new member orientations* in order to maximize the value of council member participation. A number of companies invite new members to spend a day or two at a key manufacturing site and to meet with members of the executive team to learn about the business before participating in their first council meeting.
8. *Consider terms and term limits*. Company practices vary widely. The primary benefit of term limits is that it encourages a pace of rotation, which provides greater opportunities for fresh and diverse membership and thinking.
9. *Demonstrate the impact of the SAC's contribution*. A best practice is to include in the company's sustainability report, and other appropriate communications, a summary of the SAC's key contributions and how the SAC's work has influenced company decisions and policies.
10. *Recognize and appreciate the time and contribution of members*. This can include thoughtful acknowledgements from the CEO and the chief sustainability officer, as well as conveniences with travel and meeting arrangements.

Corporate Sustainability Reports

Just as companies provide annual financial reports to disclose information related to their financial value, so corporations are seeing the merits of demonstrating their social, environmental, and economic impacts—sometimes referred to as "sustainability reports." The Global Reporting Initiative (GRI)—an NGO whose mission is to "make sustainability reporting standard practice for all organizations"—provides a sustainability framework that is in its fourth design iteration in fourteen years.[6]

The International Integrated Reporting Council (IIRC), also an NGO, seeks to create "the globally accepted international framework that elicits from organizations material information about their strategy, governance, performance and prospects in a clear, concise and comparable format."[7]

The Sustainability Accounting Standards Board (SASB) is a US-based nonprofit "engaged in the development and dissemination of industry-specific sustainability accounting standards."[8]

According to the Governance and Accounting Institute,[9] there is a dramatic rise in sustainability reporting among companies in the S&P 500 Index and the Fortune 500. In just one year, there was a jump from 19 percent of the S&P 500 reporting in 2011, to 53 percent of the S&P 500 reporting in

2012. Among Fortune 500 companies, there was an increase from 20 percent reporting in 2011 to 57 percent reporting in 2012.

The G & A Institute indicates that reporting benefits companies. "Increased transparency and disclosure build better relationships with stakeholders that can impact a company's reputation, valuation, and right to operate."[10] Additionally, companies that can show their commitment to sustainability can attract investment dollars. According to "the Impact of Sustainable and Responsible Investment," published by the US SIF Foundation in 2013, "testaments to the growing impact of SRI [socially responsible investment] on the investment market place can be found in the creation of SRI indices and in the development of the Principles for Responsible Investment (PRI) whose signatories—with assets over $ 30 trillion—are now estimated to represent 20 percent of the estimated total value of global capital markets."[11]

Eric Roston, sustainability editor of Bloomberg.com, noted the relevance of these reports. "GRI provided structure, rigor, and definition for companies to report on a broad range of social and environmental issues. The metrics were developed to help companies measure and disclose their performance on topics that are non-traditional in reporting. There are a number of important organizations that are developing different elements within sustainability reporting including GRI, SASB, IIRC, and CDP. Ideas and practices are maturing every year. The next phase will be more industry specific standards."[12]According to Roston, this information provided by companies can be very useful to institutional investors, journalists, governments, and NGOs.

Additional information is provided in chapter two about The Sustainability Consortium (TSC). TSC is the first organization that is developing and disseminating a standardized framework to measure and communicate sustainability-related information throughout the product value chain.[13] This information is already being used by major retail purchasers, like Walmart, to assess their supply chains.[14]

It is estimated that energy costs can comprise as much as 20 percent of a manufacturing company's production costs. Recall that in Chapter 3, Gail Klintworth of Unilever noted that only 4 percent of the company's greenhouse gas emissions are in operations, while 24 percent are around sourcing.[15] Research provided by TSC can help companies make decisions to reduce costs and mitigate risks—both fundamental to corporate sustainability and profitability. Eventually, suppliers who want to be competitive are likely to shift to more energy efficient practices, which then becomes a virtuous cycle. Once again, it is the corporate sector that is driving systemic change that can alter the pace of climate change.

Social Media

Another effective form of stakeholder engagement is via social media, including blogging and tweeting. "Even the stodgiest companies have found their way onto Twitter. They have discovered…it's more like a conversation they need to join or risk losing influence over how consumers view them or their brands," says the *Wall Street Journal*.[16] In fact, as of July 2012, 82 percent of the Fortune 100 Global companies have at least one Twitter account.[17] Furthermore, companies in the Fortune 100 were mentioned online more than ten million times in a one-month period, and on most occasions that was on Twitter.

Additionally, a survey reported in *Harvard Business Review*[18] says that people are more likely to trust a company whose CEO and team engage in social media, and that people are likely or more willing to buy from a company whose mission and values are defined through their leaderships' involvement in social media. The BRANDfog 2012 CEO, Social Media and Leadership Survey demonstrated that "executive engagement in social media raises the brand profile and instills confidence in a company's leadership team."[19] Through social media, corporate leaders—including CEOs and chief sustainability officers—have an opportunity to shape their messages, engage in ongoing dialogs with influencers in the corporate and NGO sectors, and hear and address the interests of customers, employees, and investors as well as others.

Social media is an open forum that builds trust and relationships. Companies are learning that if they are not part of the conversation, it will happen without them.

Companies Enhance Their CSR Results through Partnerships

Companies will maximize the success of their sustainability efforts by collaborating with NGOs and other businesses.

Corporate-NGO Partnerships

Corporations bring valuable resources to bear in achieving social, environmental, and economic impacts. Companies have much to gain, however, by accessing and leveraging the expertise, community relationships, and credibility of particular NGO partners for specific initiatives/programs within a company's overall sustainability strategy. As seen in chapters two through seven, global corporations often have different, and even multiple, NGO partners for each of the company's particular sustainability projects. There are a number of ways to maximize the benefits and opportunities of NGO partnerships.

1. *Be clear in the mission and goals of your company program.* State the mission or purpose of the program, how it aligns with the company's overall sustainability mission and corporate mission, the goals for the initiative, and how the company will measure results.
2. *Determine the company's greatest assets in achieving the mission and goals.* Identify the company's strengths and gaps—with regard to expertise, credibility, and relationships with individuals and institutions whose engagement and support will be essential for the program's success.
3. *Identify the initiative's primary leadership within the company.* Identify the lead person at the company and clearly define the person's role. Also identify additional parties within the company who will be consulted, and articulate their roles in the program. Ensure that each of these people understands what is expected of them.
4. *Be strategic in identifying one or more NGO partners.* Consider the gaps that were identified in #2, above—with regard to expertise, credibility, and relationships with individuals and institutions whose engagement and support will be essential for success. Research and identify several NGOs that could potentially bring such values to a partnership relationship.
5. *Consider the benefits that the company has to offer to prospective NGO partners.* In creating a short list of potential partners, consider the possible value that the company could offer to each NGO in terms of a win-win relationship. Think in terms of the NGO missions and how the company can help the organization to achieve its purposes while the company accomplishes its own interests, and consider the resources that the company can bring to bear, such as expertise, technology, and funding.
6. *Explore potential partnership relationships with each NGO that has been identified.* Meet and explore what is possible with each potential partner.
7. *Choose the NGO partner(s).* Make the selection based on the value that each partner brings in helping to maximize the success of the initiative as well as the company's confidence and trust in the NGO's ability to deliver what it promises. Be sure that the company project and overall sustainability mission aligns with the mission of each NGO partner.
8. *Identify the NGO leadership for the initiative.* Be clear about the person who has primary responsibility for the initiative at the NGO, and clearly define the person's role. Also identify additional parties within

the NGO who will be consulted, and articulate their roles in the initiative. Ensure that each of these people understands what is expected of them.

9. *Establish clear expectations and measurable goals.* Create a clear plan that is mutually agreeable and mutually beneficial. Establish a system for regular reports and discussions—perhaps quarterly—to provide opportunities to continuously assess and potentially refine planning as needed.
10. *Consider the value of a committee.* Depending on the size and scope of the initiative, and the stakeholders who are involved, consider establishing an advisory committee or council. If a committee is established, articulate its role clearly, and create agendas thoughtfully with the group's purpose in mind.
11. *Provide reports about the program's progress.* Provide clear, accurate, and timely reports to key stakeholders about the progress of the initiative, showing measurable outcomes for each goal. Give opportunities for interested parties to offer input and respond to them accordingly.
12. *Recognize and appreciate people and organizations that contribute assistance.* Thank people and organizations for their assistance in reports and on the website where appropriate.

Business Coalitions

As shown in a number of chapters, companies are forming coalitions with each other and with NGOs to address social, environmental, and economic challenges together. One example is the Digital Energy and Sustainability Solutions Campaign (DESSC), the coalition of information and communications technology (ICT) companies and associations, NGOs, customers and other stakeholders who recognize how ICT enables improvements to the environment and drives long-term economic growth. The DESSC seeks to advance strategies to improve energy efficiency and reduce greenhouse gas emissions, improve broadband penetration to encourage innovations through intelligent connected devices, and raise funding for clean energy.

Another example is the Global e-Sustainability Initiative (GeSI), an NGO whose members include over 30 of the world's leading service providers and vendors from the ICT sector, including AT&T, Ericsson, HP, Microsoft, Sprint, and Verizon. GeSI envisions a sustainable world through responsible ICT-enabled transformation. Their work, together with the Electronic Industry Citizenship Coalition, includes the development of an action plan to address conflict minerals. The Sustainable Apparel Coalition seeks to expand the adoption of the Higg Index for measuring the environmental and social performance of apparel products. The Global Business Coalition Against Human Trafficking, praised by President Obama at the Clinton Global Initiative Annual Meeting 2012, fights human trafficking. The Global Network Initiative, originally launched by BSR, addresses freedom of expression and privacy on the Internet. And BSR's HERproject works with multiple corporations to foster women's economic empowerment.

Aron Cramer, CEO of BSR, foresees further expansion of business coalitions. "Coalitions are an essential tool and in some ways the best tool related to sustainability," he said. "The leaders in this field are most acutely aware of what they can and cannot accomplish. That's an interesting change in perspective. Usually we see leaders thinking they can do the most. In this case, however, they know that on their own they can only get to a certain point. They realize they can make greater progress with coalitions."[20]

Another venue for further collaboration is the Clinton Global Initiative, which works year-round to foster partnerships among companies, NGOs, and governments to advance nine broad and cross-cutting tracks, each representing a topical global challenge or strategic approach. The tracks include the built environment, education and workforce development, energy, environmental stewardship, girls and women, global health, market-based approaches, response and resilience, and technology.[21] The annual meetings,[22] held each fall in New York City, are celebrated events where members convene to learn, share, and recognize partnership announcements together with President Clinton, who participates throughout the three days.

To date CGI members have made more than 2,300 commitments, which have improved the lives of over 400 million people in more than 180 countries. When fully funded and implemented, these commitments will be valued at more than $73.1 billion.[23]

Looking to the Future

Global corporations have the human capital, the financial resources, the technology, the international footprint, the power of markets, and the profit motivation to build a better world. NGOs will be essential partners—essential for their expertise and their commitment to mission. Governments will be vital partners—vital as representative bodies. By engaging together through an iterative process, we will achieve "A Better World."

Companies can build profitable brands and businesses by capturing the wisdom of stakeholders from the far corners of the world, including women and girls who have been disenfranchised, young employees who are adept with new technology, social media, and solutions, consumers communicating on the Internet worldwide, grassroots NGOs in the communities where they do business, and investors who understand that companies are more valuable when they incorporate sustainability into planning.

The stories in this book show that companies are the likeliest institutions to build a better world, that they are beginning to show promise of their capacity to do so, and that you can play a part in making this so.