

Incorporating ethics into strategy: developing sustainable business models

Ethics are pivotal in determining the success or failure of an organisation. They affect a company's reputation and help to define a business model that will thrive even in adversity. This paper sets out how finance professionals can shape their organisations' ethical agendas and incorporate ethics into strategy to ensure long-term sustainability. This second edition includes updates and new global case studies.

Discussion paper

About CIMA

CIMA, the Chartered Institute of Management Accountants, founded in 1919, is the world's leading and largest professional body of management accountants. With more than 172,000 members and students operating in 168 countries, CIMA works at the heart of business, in industry, commerce, public sector and other not-for-profit organisations. Partnering directly with employers, CIMA sponsors leading-edge research, constantly updating its qualification, professional experience requirements and continuing professional development to ensure that it remains the employers' choice when recruiting financially trained business leaders.

CIMA is committed to upholding the highest ethical and professional standards of members and students and to maintaining public confidence in management accountancy. CIMA believes that sustainability is a key issue for all organisations across the world and is committed to supporting its members and students in addressing this challenge. For more information, please see www.cimaglobal.com/ethics and www.cimaglobal.com/sustainability

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Neither these organisations nor the individuals representing them are responsible for the contents of this paper.

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Conclusions

1. Strong ethical policies that go beyond upholding the law can add great value to a brand, whereas a failure to do the right thing can cause social, economic and environmental damage, undermining a company's long-term prospects in the process.

2. Once they have adopted an ethical approach, companies will often find there are bottom line benefits from demonstrating high ethical standards.

3. The ethical tone comes from the top.

4. High quality management information on social, environmental and ethical performance is vital for monitoring the environmental and social impacts of a company and for compiling connected reports showing how effective its governance arrangements are.

5. Corporate communications and reporting on sustainability need to do more than just pay lip service to the green agenda. They need to provide hard evidence of the positive impact on society, the environment and the strategic returns for the business, and how any negative effects are being addressed.

6. Management accountants have a particular ethical responsibility to promote an ethics based culture that doesn't permit practices such as bribery.

Recommendations

1. Ethics must be embedded in business models, organisational strategy and decision making processes.

2. Senior managers and business leaders must demonstrate an ethical approach by example. This will show that middle and junior managers will be rewarded for taking an ethical stance and create the appropriate organisational culture.

3. Non-executive directors should act as custodians of sustainability, with the particular duty of ensuring that their executive colleagues are building a sustainable business.

4. Governance structures should include people with appropriate skills to scrutinise performance and strategy across social, ethical and environmental issues.

5. Managers must come to problems with 'prepared minds', looking at ways in which an organisation can benefit from an ethical approach rather than one that relies narrowly on cost cutting or compliance.

6. Finance professionals must play an active role as ethical champions by challenging the assumptions upon which business decisions are made. But they must do so while upholding their valued reputation for impartiality and independence.

7. Management accountants are encouraged to help ensure that their businesses are measuring performance on an appropriate time scale that will deliver sustained and sustainable success.

8. Business leaders should use the skills of the finance team to evaluate and quantify reputational and other ethical risks.

9. Finance professionals need to take social, environmental and ethical factors into account when allocating capital, so that sustainable innovation is encouraged.

This paper distils findings from a series of high level round table discussions on the future of business ethics. Senior business decision makers met experts in ethics, corporate responsibility and environmental sustainability. Together they discussed how organisations should approach social, environmental, economic and ethical issues that go beyond the financial bottom line. Recommendations are provided on how companies can respond to society's changing ethical demands, as well as relevant case studies of business practice from around the world.

Businesses can be tempted to make short-term gains by turning a blind eye to ethics. Despite codes of practice, regulatory oversight and ever-increasing public pressure, many firms routinely ignore ethical considerations. Some even claim that a business simply needs to abide by the law without concerning itself with broader ethical issues. Yet such disregard can undermine the wider economy and, in time, cause irreparable damage. Lessons must be learned from the corporate collapses of the past decade: myopic strategies can create massively profitable entities, yet impressive initial results may turn out to be unsustainable.

When we talk about sustainability, we talk about "are we going to be around?" this is really about your reputation and whether people trust you.

There is a strong business case for running companies in an ethically responsible way and for finance professionals to facilitate this. A socially and environmentally ethical approach ensures a company's ability to thrive in the long-term by protecting its reputation, its license to operate, its supply chain, its relationships with partners and its ability to recruit talent. It's about avoiding corporate collapse as a result of litigation or fraud.

Of the 28 companies that fell out of the world-leading S&P 500 index in the past ten years, comparatively few casualties were claimed by shifts in technologies and markets. More were victims of massive fraud (as with Enron and WorldCom) or had leaders who'd failed to create a sustainable business model. This was evident most graphically in the financial services industry, with the likes of Lehman Brothers, Bear Stearns and Wachovia choosing huge short-term gains at the cost of their long-term survival. Similarly, UK electronics company Marconi was brought down by its unsustainable plan for its business.

Society should not let unethical companies make the returns that they have been allowed to.

While some firms consistently fail to consider ethical factors, others have given themselves a competitive edge by establishing strong credentials in this area. For instance, Toyota, which is now the world's largest car maker, boosted its global standing with its pioneering work in the nineties on the hybrid Prius model. Coca-Cola thought it commercially worthwhile to take a minority stake in the UK fruit drinks firm Innocent, which boasts that it gives away a tenth of all its profits. And McDonald's is investing heavily in activities aimed at associating it with ethical and environmental awareness as it rebuilds its brand and attempts to overcome decades of negative publicity.

The round table discussions highlighted that the link between ethics and business success has become far clearer in recent years, as companies realise that corporate interests must be aligned with the broader concerns of society if they are to survive. In a successful company, ethics are embedded in decision making and long-term strategy. 'Doing the right thing' is not an afterthought that's bolted on to the mainstream activities that generate its profits. Successful, sustainable firms aspire to integrate ethics into all aspects of strategy.

Society and the bottom line are the two issues that will put pressure on companies to be ethical.

The financial crisis has certainly highlighted the need for capital market decision making to reflect long-term considerations. It has shown the extent to which corporate reporting fails to highlight systemic risks. A shift to a reporting model that supports the information needs of long-term investors and reflects the connected nature of environmental, governance and societal factors is an essential step towards building a sustainable economy.

The Prince's Accounting for Sustainability initiative has set out the need for 'new approaches to accounting and reporting to reflect the broader and longer-term consequences of decisions taken. Without more complete and comprehensive information, companies, investors and others cannot make the fully informed decisions needed to survive and prosper.'

For companies it is often about much more than reputation issues: it's the real cost burdens that they incur for being corrupt.

Work has already begun to tackle these issues. Accounting for Sustainability believes that the establishment of a connected and integrated reporting framework, overseen by the International Integrated Reporting Committee, launched in August 2010, is essential to help the transition to a sustainable economy (see Panel 2).

Ethical businesses are not a new phenomenon, of course. During the industrial revolution many companies in the US and Europe thrived on a strong philanthropic tradition. What is new is the way in which ethics now needs to be seen as a core part of companies' strategies and how it is being embedded into management culture at all levels. There are numerous explanations for this new prominence. One suggestion from the round table discussion was that, thanks to modern communications technology and an increase in living standards, 'the circle of concern' has grown among the public. Young people in particular seem to be much more aware of the social and environmental effects that businesses can have around the world – and more critical of those that they see as part of the problem.

The global growth in population and per capita consumption as a result of industrialisation is another factor. Once abundant resources are growing scarcer and can no longer be considered a free gift from nature. And, in the jargon of economics, the 'externalities' – i.e., the negative effects of economic activity – are increasing steeply. Indeed, they may actually outweigh the economic benefits of the goods rolling off the production line, which is something not captured by traditional reports and accounts.

We need to get beyond putting the environment as the thing you do after you have made your profit. Instead we need to do the profitable thing now and do it as responsibly as possible.

A more managerial factor is the increasing value placed on corporate reputations. A multinational supplier of consumer goods, for example, can replace a burnt out factory more easily than it can restore a tarnished brand. In the 1970s Ford calculated that the cost of recalling all its Pinto cars, which were prone to fuel tank fires, would probably exceed that of handling all the accident victims' claims for damages, so it initially decided not to recall the model. For the most part, corporate culture rejects such an approach today. Dealing swiftly and openly with problem can serve to establish a firm's credibility as trustworthy brands. Toyota management has discovered in 2010 that it is judged as much on its handling of the recall of millions of vehicles with suspected defects as on the specific engineering problems.

The shift is not complete by any means, though. Companies that don't deal directly with consumers can still be tempted to risk a good reputation for quick profits. But even firms that aren't directly consumer facing must consider the effects of negative reporting about their activities or of falling foul of legislation. And the steady growth in the use of ethical criteria by institutional investors means that lapses in corporate social responsibility can dent a plc's share price or a private firm's prospects of finding investment.

With ethics now centre stage globally, there's a chance to create a win-win situation in which companies can find out how a sustainable approach benefits the bottom line, thereby convincing even the most profit hungry of investors. This is what UK retailer Marks & Spencer did with its 'Plan A', set around 100 measurable commitments around the five pillars of climate change, waste, sustainable raw materials, fair partner and health. For nearly two decades the UK's Co-operative Banking Group has consistently positioned itself as an 'ethical bank', rejecting business because of a firm's involvement in fossil fuel extraction, the arms trade, animal testing, engagement in financial practices regarded as unsound, or connection with oppressive governments. The bank has had an annualised growth rate of 14% since adopting such policies and experienced continued growth during the global banking crisis.

There is an overlap between the moral imperative on one hand and the business case on the other, but it is not a complete overlap.

Encouraging businesses to listen to public opinion is a step in the right direction. But inevitably there have been accusations that their stated commitment to corporate social responsibility may be opportunist or only skin deep. Accusations of 'greenwash' abound, with environmentalists arguing that firms have seen the new interest in ecological issues as simply another chance to market products as 'environmentally friendly' to gullible consumers. The green credentials of Toyota's Prius have been questioned for instance. The BP oil disaster in early 2010 in the Gulf of Mexico has prompted many questions about the meaningfulness of voluntary corporate responsibility reporting and its analysis by investors. BP, which for a time positioned itself as a champion of sustainability through its Beyond Petroleum campaign, has since been seen as having had serious gaps in its risk analysis and safety procedures. The costs of not investing appropriately in these areas and the resultant media storm and US government condemnation of the loss of life as well as the devastating effects on the environment and livelihoods of local communities were almost catastrophic for the company. Share prices plunged and its reputation faced ruin – a burden BP will shoulder for years to come. By July 2010 costs had exceeded US\$8 billion and BP had set aside US\$32.2 billion to cover ongoing estimated costs linked to the spill.

Environmental issues are economic issues. They are also social justice issues – the people most exposed to all of these issues are poor and in the developing world.

A company's lack of attention to responsible business and open communication can have a disastrous impact on sales, share value and competitiveness. The BP case marks a turning point – transparency and accountability are increasingly in the public and investment community's focus and all companies face the spotlight. Social media and the ongoing growth of actors in the responsible business and sustainability fields create high risk to companies' brands and market position if they are found to fall short of what they purport to represent.

The problem for businesses is that, although some ethical issues are straightforward, many are highly debatable. Are nuclear power stations bad and wind turbines good, for example? Should an armaments business quit markets where bribery is rife or simply behave better than its rivals? And terms such as 'predatory lending', 'excessive risk taking' and 'greed' are all notoriously hard to define.

Most of these [unethical actions] are motivated by greed and by compensation structures that almost force them.

Another problem, which was highlighted by the financial crisis in the west, is that shareholders cannot be relied upon to defend their own interests. The fashionable drive to maximise shareholder value has seen investors and business leaders combine in a quest for short-term advantage. Far from being champions for sustainable business, the equity markets have imposed huge pressures on senior managers for quick returns. Today it could be seen that one of the duties of a tough CEO is to resist such pressure by delivering more realistic financial results in the short-term, if need be. This hardly squares with current remuneration practices, of course – especially in investment banking.

1. Questions boards must ask themselves

- Do we understand our model for delivering projects and all the risks we are taking? What are the circumstances under which we would fail? Are we happy with the risk mitigation?
- Do we spend enough time discussing strategic issues? Do we have a workable process for overseeing strategy? Do we get the right information?
- Do we focus on long-term sustainability?
- Do we have a healthy, ethical and thoughtful culture that encourages constructive challenge?
- Do we have effective collaboration between the board and the management team, with the latter guaranteeing the most relevant management information on which to base decisions?

As the Enron scandal dramatically illustrated, there is a strong correlation between short-termism and the cutting of ethical corners. By its nature, a long-term approach is more concerned with various aspects of sustainability. Many companies take the long view. But it is usually huge multinationals, such as HSBC and Nestlé, that can see they have a greater stake in the future. They also have more resources available to undertake scenario planning for 50 or even 80 years ahead. They are more likely to feel that factors such as food security, water scarcity or climate change will have a material effect on their commercial prospects. These issues will ultimately affect all businesses and creating the right corporate culture is critical.

The challenge is gaining the right knowledge and understanding, and then committing and investing in the time and resources to adapt current business models for the long-term.

Leadership is the key factor that establishes whether a company is long-sighted and able to integrate ethics successfully into strategy – the tone comes from the top. Only effective and dynamic leadership can set a corporate culture that goes beyond merely averting the reputational damage risked by unethical behaviour. It can also transform the dangers posed by ethical challenges into commercial opportunities, thereby ensuring that the organisation is fit for the future.

Leaders who fail to understand the changing context in which they operate are not providing a sustainable foundation for their companies. They will permit outmoded business models to be pursued, even when the assumptions that these were based on have altered. Specifically, leaders need to recognise the threats and opportunities posed by factors such as climate change, the declining reserves of fossil fuels and the corrosive economic impact of endemic bribery in certain sectors and regions.

Reputational risk has become a big area in the past few years that no one has quantified.

A failure to understand these factors has already become evident in some industries – it's arguably a major reason behind the crisis that engulfed US car-makers last year. Competitors such as Honda anticipated the increase in petrol prices and benefited from this. Similar scarcity trends are predicted in water, land and food. If companies are to survive these changes to the balance of supply and demand, their leaders must both understand the threats and see the opportunities.

Dynamic leaders who can see the problems and prospects ahead must use this knowledge to set the right tone across their organisations. This tone from the top is vital in all aspects of governance. In ethics, the CEO's personal perspective is crucial. Once the leader 'gets the ethics bug', the whole organisation is more likely to follow suit.

Values and culture can change – and that will be down to the leader and the board.

But leaders must go much further than being merely aspirational. Policy statements need to be backed by action that is clear, effective and brings about changes in direction. These changes demonstrate to middle managers that their leaders mean what they say. If they realise that there is a genuine corporate commitment to a particular course of action, they are more likely to support it in practice.

Middle managers need to be given explicit and implicit authority to speak up where they believe that the welfare of the organisation and its employees is being threatened. They must be converts and evangelists for the corporate mission – including the ethical dimension. The leader who understands the value of ethical principles and practices will effect real change only if their zeal can be converted into a strong culture that infects the whole organisation.

So what are the special responsibilities of accountants in making business more ethical? Countering bribery is an obvious starting place. CIMA members are bound by strict standards in the CIMA code of ethics. Because of this, they are valued by organisations as a bulwark against morally questionable practices. They can be instrumental in countering the development of a culture that normalises the payment of bribes.

Finance professionals are not the champions of the long-term view, but their role is to facilitate the assessment of that view.

Management accountants have a further important responsibility: the delivery of accurate management information is vital to understanding a firm's overall sustainability, gauging its environmental impact and showing how effective its governance systems are, for example. They have a key role in compiling the so-called 'connected reports' that Accounting for Sustainability is advocating with increasing force.

Some accountants may feel that being a cheerleader for a cause such as sustainability clashes with the dispassionate role of the traditional finance function. Undeniably, people with professional accountancy qualifications are valued because of their ability to stand above the fray and perform impartial analyses. But, as this paper has argued, it's wrong to believe that ethical principles conflict with the long-term viability of a business. On the contrary, there is growing evidence that ethical principles support it.

The accounting profession is the ethical spine of organisations.

2. The Prince's Accounting for Sustainability and International Integrated Reporting Committee (IIRC)

Management information is the linchpin for developing better corporate reporting. Conventional reports and accounts can focus excessively on a company's short-term financial performance. They pass over broader factors such as the sustainability of the business model or the company's social and environmental impact. In particular, the way that 'nature's capital' is depleted – by the consumption of fossil fuels or the emission of greenhouse gases, for example – typically gets ignored. Where companies do disclose such information, it is seldom presented in a way that is connected with the strategic direction and financial performance of the company, clarifies the risks and opportunities or permits year-on-year comparisons.

The Accounting for Sustainability (A4S) initiative, in which CIMA plays an active role, seeks to redress the balance by creating a far-reaching connected and integrated reporting model. Chartered Management Accountants are well placed to collate and present this vital data, much of which will be the top slice of routine management information. And their ethical code means that they must present it objectively, whatever the pressures from elsewhere in the organisation to distort unpalatable facts.

In August 2010 the A4S and the Global Reporting Initiative (GRI) launched the International Integrated Reporting Committee (IIRC). The initiative has global reach and is a collaboration of established accountancy institutions, standard setters and leaders in the corporate governance, business ethics and sustainability. Currently there is no global standard for measuring and reporting on environmental, social and governance performance.

The IIRC has been created to respond to the need for a concise, clear, comprehensive and comparable integrated reporting framework structured around the organisation's strategic objectives, its governance and business model and integrating both material financial and non-financial information.

The objectives for an integrated reporting framework are to:

- support the information needs of long-term investors, by showing the broader and longer-term consequences of decision making
- reflect the interconnections between environmental, social, governance and financial factors in decisions that affect long-term performance and condition, making clear the link between sustainability and economic value
- provide the necessary framework for environmental and social factors to be taken into account systematically in reporting and decision making
- rebalance performance metrics away from an undue emphasis on short-term financial performance
- bring reporting closer to the information used by management to run the business on a day-to-day basis.

www.accountingforsustainability.org

Case studies

Case study 1: Kimberly-Clark – a century of core values

Kimberly-Clark, a personal products producer, was founded in the US more than 100 years ago on principles that included: making the best product; serving customers and vendors well; dealing fairly with employees and being financially and fiscally responsible. Today these principles translate as their core beliefs of 'authenticity, accountability, innovativeness and caring'. Business ethics have always been central in their business model. In order to safeguard reputation and good practice, as the company expanded globally it sought to act 'above compliance' with local laws and regulation. Its commitment to financial and fiscal responsibility has seen it through the current economic crisis.

Kimberly-Clark first set corporate-wide environmental goals in the 1990s – five yearly cycles were introduced with targets to measure progress and channels to create shared learning. The initial focus was on energy efficiency, water usage and chemical waste. After the first review in 2000, strong cost savings were in evidence, leaving the benefits for the bottom line in no doubt. Methodology for tracking, analysing and reporting on environmental impact data are now well embedded. Initially a demanding task, it was made easier by the sharing and learning from peer practice globally. As a division in one region of the world found ways to track capability, others would follow, or innovate further.

In relation to social impact, there are, in common with many businesses, challenges in monitoring and reporting. An example of this would be overseeing compliance within a complex supply chain. To address this Kimberly-Clark have agreed their own priority values and they seek to benchmark against these. They view their approach to social impact evaluation as a multi-year development, with flexibility to change the model based on learning gained.

The role of the CEO and the leadership team have been critical in integrating sustainable business practice into the organisation. Sustainability and company ethics are key agenda items at the CEO Forum, an annual event to set corporate direction, which brings together 100 leaders from across the business. An external sustainability expert committee has also been recently appointed – to both challenge and guide corporate practice. Sustainability is also integral to the 2015 global business planning process. Every unit must now set goals for social and environmental outcomes. Support comes from a dedicated central function that acts as a partner to the business on sustainability issues. In addition, more experts are spread across the group worldwide.

In 2004 Greenpeace launched a global campaign against Kimberly-Clark, focusing on issues of deforestation and the supply chain. Significantly, the corporation opened a face to face dialogue with their adversary, not only to understand the issues and the ways they could address them better but also to explore ways they could even work together. This led to the joint creation of fibre-sourcing standards, issued in 2009, which have influenced sourcing practices in the wider market. This pays testament to the value of collective action when private sector, civil society and, as necessary, government work together for joint goals.

The sustainability agenda is highly valuable in connecting people across the business, by motivating and engaging staff. It has also been a direct enabler of innovation and customer initiatives. Global initiatives such as 'big things, small steps' engage staff to make positive changes in personal practices. It attracted 7,000 staff worldwide (circa 10% of the workforce) within months of its launch in 2010, further embedding understanding of the issues and reinforcing the firm's values.

At a national level, Yuhan-Kimberly, a joint venture in South Korea, is behind 'Keep Korea Green', one of the most well-known and successful domestic environmental campaigns. Running since 1984, 39 million trees have already been planted. A key component has been tree planting campaign for newlyweds. Yuhan-Kimberly is also recognised by the general public as a highly respected employer because of its good management practices and strong labour-management relationships. The company recently launched a product with a higher percentage of bio-degradable materials and although more expensive it has been very successful in the market – underlining the important relation between trust in a brand and customer loyalty based on values and business ethics.

Case study 2: Brandix – garments without guilt

With headquarters in Colombo, Sri Lanka, the Brandix Group has grown over four decades from a small company to a leading clothing conglomerate for some of the world's leading brands. These include Victoria's Secret, Pink, Gap, Marks & Spencer, Tommy Hilfiger and Abercrombie & Fitch. Commitment to their partners, their people and the environment have been central to the group's success. Their corporate image is underpinned by their 'Garments without guilt' concept widely promoted by Sri Lankan clothing manufacturer; International Labour Organisation-espoused labour practices, global standardisation and certification to improve processes and an awareness of social and environmental issues.

'Going Green' is not just a corporate buzzword for Brandix: the group has an enduring and proven commitment to eco-friendly manufacturing across their 27 manufacturing locations in Sri Lanka, India and Bangladesh. This not only maximises value for the customer but also enables the best possible use of resources. In its endeavours to reduce its carbon footprint, the Brandix group has become possibly the first clothing manufacturer to declare its carbon footprint for every item it produces.

Their efforts to adopt green manufacturing processes not only have substantially reduced their carbon footprint but have generated significant savings in energy and water use, minimised the amount of solid waste going to landfill and promoted the replenishment of natural resources.

Amongst many accolades in 2009 was winning the national winner for Sri Lanka in the worldwide Energy Globe World Awards. Their eco-centre in Seeduwa, Sri Lanka, is the highest rated clothing manufacturing facility in the world in terms of environmental impact. As the lead manufacturing plant for Marks & Spencer, the eco-centre has outperformed against its targets and achieved a score of 76 on the 85 point international Leadership in Energy & Environmental Design (LEED) US green certification system. This was 12 points higher than the 64 required for platinum status.

Table 1: Measuring actual performance with target

Environmental impact indicator	Target	Achievement
Reduction of carbon footprint	46%	60%
Reduction of electricity consumption	40%	50%
Reduction of fuel consumption	10%	24%
Reduction of overall energy	40%	46%
Reduction of water consumption	50%	63%
Reduction of solid waste sent to landfill	60%	100%

Today, all manufacturing operations of the Brandix group are working towards reducing greenhouse gas emissions by cutting down on energy consumption.

Steps taken include better control of the air conditioning temperature; switching off air conditioning, lights, computers and other electrical appliances when not in use; using renewable energy such as bio mass boilers; car pooling and using electrically powered vehicles for transportation within the plants. Incorporating these measures into the company's key performance indicators creates measurable targets that can be benchmarked across divisions as well as competitors.

The company's reputation engenders pride in its 25,000 employee base. The corporate 'personality' is determined by three overlapping areas: values, work culture and social responsibility. This includes a social agenda that emphasises gender equality, non-discriminatory practices, curbs on child labour and employment of the 'differently-able'. An example of this is a recent initiative in partnership with Marks & Spencer. M&S's UK award winning flagship community and work experience programme, which enables those who are 'differently-able' gain work experience and productive employment, was replicated locally as the Marks and Start initiative.

The adoption of best practices and global standards has not only benefited Brandix qualitatively but has also brought a considerable quantitative benefit into both their top and bottom lines. Their positive partnerships with vendors, suppliers, customers and retailers has been instrumental in enhancing their standing in the industry and directly furthered economic progress and opportunities for expansion. The management's priority is to ensure an ethical, transparent and accountable company that thrives on good governance principles and it has been this approach that has underpinned their success and recognition.

Case study 3: PricewaterhouseCoopers – championing sustainability in Poland

PricewaterhouseCoopers (PwC) is a leading global professional services organisation that has created a strong sustainability culture throughout its own business.

While PwC observes all the professional standards, laws and regulations of whichever country it operates in, the organisation also operates a code of conduct based on shared values. As part of this, PwC aims to create a strong corporate culture that shows commitment to sustainable development by minimising its negative impact and maximising its positive effect on the wider community and environment in its daily activities. To analyse this impact, PwC uses corporate social responsibility (CSR) monitoring and measurement techniques to improve the quality of core areas such as employee relations, environmental impact and client satisfaction.

As a service provider it strives to build productive, long-term relationships with clients, based on high ethical standards and creative solutions. Among the services PwC offers is help for companies to learn about sustainability, how to integrate it into their strategies and operations, how to use related opportunities to increase their revenues and cut costs, and how to manage any associated risks.

PwC has been championing CSR activities in Poland, not only through the example of its own corporate culture and sustainability services, but through its partnership with other Polish organisations.

Irena Pichola, the sustainable business solutions leader at PwC Poland, contributes to the European Sustainability Reporting Association. Through this forum she recognises an increased interest in a strategic approach to CSR in the Polish business community. Although only a few firms produce reports, the number is increasing. There are observable trends in sectors such as the financial institutions, fast-moving consumer goods and oil and gas (which are generally leaders in sustainability reporting). However, the quality of reporting is low and a better understanding of the principles and use of commonly used frameworks, such as the Global Reporting Initiative, is needed. Although some Polish firms understand the benefits to business, CSR activity and reporting remains primarily driven by the subsidiaries of large multinationals.

Most companies in Poland lack a CSR structure, and the whole issue can become a public relations exercise that lacks a strategic core. There is still a need for businesses to understand the implications of CSR activities – from improved employee relations and the creation of a high-performance corporate culture, to understanding the needs of stakeholders and customers and responding to the growing green agenda. PwC recognises that these can all help underpin the long-term success of a company.

By sharing learning and co-operating on initiatives, firms in Poland can create a common understanding. PwC sits on the board of the Polish Responsible Business Forum, a non-governmental organisation (NGO) with members from business, government and other NGOs. RBF produces research, reports and events promoting sustainability. The 2009 *Responsible business in Poland 2009: good practices* shows the rapidly growing interest in CSR in the Polish media, as well as more involvement in environmental issues at government level. Public awareness is growing, too, with the first Polish stock index of responsible companies. The report also acknowledged PwC's partnerships activities, such as its co-operation with the Warsaw-based Akademia Leona Koźmińskiego business school on a postgraduate course on responsible business, and PwC's joint initiative with PGNiG SA (Polish Oil and Gas Company) in the energy sector.

Within PwC Poland's own operations, CSR is defined in four areas: workplace (our people), marketplace (clients and business society), society (NGOs and local communities) and the environment. As PwC's business is based on human capital, a supportive, diverse and engaging workplace is not just 'the right thing' to have, but essential. In order to analyse impact CSR monitoring and measurement techniques are commonly used, in order to improve quality of delivery as well as quantify return for core areas such as employee and community relations, environmental impact and client satisfaction.

As a strong voice for sustainability activities globally, PwC looks forward to the acceleration of CSR activity in Poland in the coming years.

Global ethics and sustainability initiatives

Global Reporting Initiative (GRI): is a network based organisation that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. Sustainability reports based on the GRI framework can be used to benchmark

organizational performance with respect to laws, norms, codes, performance standards and voluntary initiatives; demonstrate organisational commitment to sustainable development; and compare organisational performance over time. See: www.globalreporting.org

Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises: first drafted in 1976, these are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide voluntary principles and standards for responsible business conduct in areas such as employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. The guidelines are the most comprehensive instrument in existence today for corporate responsibility multilaterally agreed by governments. See: www.oecd.org/daf/investment/guidelines

United Nations Principles for Responsible Investment (PRI): with the growing view among investment professionals that environmental, social and corporate governance (ESG) issues affect the performance of investment portfolios, the PRI provides a framework for investors to assist in these considerations. They are not prescriptive, but instead provide a menu of possible actions for incorporating ESG issues into mainstream investment decision making and ownership practices. The principles came into being in 2006 on the back of a UN initiative and in early 2010 there were 785 signatories. Applying the principles should not only lead to better long-term financial returns but also a closer alignment between the objectives of institutional investors and those of society at large. See: www.unpri.org

United Nations Global Compact: the UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles, in the areas of human rights, labour, environment and anti-corruption. By doing so, business, as a primary agent driving globalisation, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere. In 2010 the UNGC stands as the largest corporate citizenship and sustainability initiative in the world – with more than 7,700 corporate participants and stakeholders from more than 130 countries. See www.unglobalcompact.org

Dow Jones Sustainability Index: launched in 1999, the Dow Jones Sustainability Indexes are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. See www.sustainability-index.com

International Integrated Reporting Committee: Launched in August 2010, the objective of the IIRC, a cross-sectoral initiative of the Prince's Accounting for Sustainability Project (A4S) and the Global Reporting Initiative is to create a globally accepted framework for accounting for sustainability that brings together financial, environmental, social, and governance information in a clear, concise, consistent and comparable format. The intention is to help with the development of more comprehensive and comprehensible information about an organisation's total performance, prospective as well as retrospective, to meet the needs of the emerging, more sustainable, global economic model. The committee and working groups involve representatives from the corporate, accounting, securities, regulatory, non-governmental organisation, and standard setting sectors. See www.integratedreporting.org

CIMA is a member of the UNGC and sits on the supervisory board and various working groups of the International Integrated Reporting Committee

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