

Get organised

Companies will suffer financial consequences if they fail to address CSR, not least from increasingly demanding institutional investors. Barclays' **Christine Farnish**, BT's **Chris Tuppen** and **Will Oulton** from FTSE, three executives at the cutting edge of CSR, explain how businesses need to take responsibility.



'Good CSR is an expectation rather than an exception today,' says Will Oulton, Head of Responsible Investment at FTSE Group. 'It is not a passing corporate fashion. Seven or eight years ago you might have been able to argue that but with growing consumer awareness, initiatives like the Equator Principles for financial institutions, and the way that companies have begun to integrate CSR and use it to their competitive advantage, this trend and the debate around good practice is continuing to develop globally.'

'Sustainability for Barclays is multi-faceted and complex and we need to engage in just about every sustainability debate that is going on out there,' says Christine Farnish, Public Policy and Sustainability Director at Barclays Group, 'We cannot just think about our environmental footprint in terms of carbon. That's important. Every big company has to think about that. But we also have to think about ethical issues, social and community issues, about what we are doing to developing countries and their economies.'

Over 60 financial institutions, including Barclays, are signatories to the voluntary principles, launched in July 2006 as the 'Equator Principles for Financial Institutions', which seek to establish a broad band of ethical, social and environmental criteria for all project financing over \$10 million.

Based on these principles, says Farnish: 'We have very sophisticated credit guidance notes for different sectors of economic activity – where we do take account of the long-term environmental impacts in terms of the credit risk'. Where two projects are equally appealing, the one with the better CSR impact will win.

Impact management

'We do think about the long-term impacts when we are making those commercial decisions,' continues Farnish. 'It goes without saying that we want to fund commercial activities that give us a commercial pay back – we are not a charity. But among the factors that we take into account when making credit decisions are the wider impacts. It is partly because we have our reputation to manage, but also partly because we have learnt from bitter experience that if you invest in projects that are controversial and seen by society as being damaging, it comes back to you and usually affects profitability'.

BT was one of the first UK businesses to acknowledge the CSR agenda, even

if in 1990 Chris Tuppen was appointed its first environment manager, the term 'CSR' was hardly coined and there were many BT managers who wondered what it had to do with them and why Tuppen was bothering them. Now BT's coordinator and director of sustainability, Tuppen recalls that at the time the company appreciated there was a reputational risk if something went wrong environmentally. However, the early thinking went little further. Shell's disastrous attempt to dispose of the Brent Spar production platform by sinking it in deep water was still five years away but senior BT managers already anticipated the sort of hugely damaging fall-out that a similar controversy could cause.

At BT, says Tuppen, CSR is both top-down and bottom-up. 'I think the difficulty is always getting the agenda down into the business. One comes across individuals who have very specific objectives that do not include CSR. They have financial targets that they have to hit. What is important therefore is to be able to talk to them in their own language about why this is critical and, if they are in a customer-facing area, being able to demonstrate that this is becoming more and more important in terms of being able to meet customer expectations – that helps in the appreciation of why it is critical.'

Farnish agrees that making the point is often a fine call: 'Climate change and carbon consumption is a fabulous example, because

'We have learnt from bitter experience that if you invest in projects that are controversial and seen by society as being damaging, it comes back to you.' - Christine Farnish

Counting costs

CSR might have been invented to frustrate the finance function but the cost of getting it wrong may be reasonably accountable but measuring how well a business is getting it right is not. This is because a standardised and generally accepted set of key performance indicators (KPIs) has yet to emerge.

The AA1000 accountability standards, says BT's Chris Tuppen, provide a procedural framework in which external verifiers such as Lloyds, Veritas or the big four accountancy practices can work to audit an organisation's CSR performance. But because many businesses are still feeling their way here, they are arriving at the auditable figures by a variety of paths. The commitment to address CSR seriously may be enshrined in membership of the UN Global Compact but that is in itself a worldwide initiative to encourage involvement and institute local peer-group reviews. It offers no performance metrics itself.

The Global Reporting Initiative (GRI), now adopted by 1,300 companies worldwide, also offers a framework against which organisations may measure their performance on the basis of over

50 indicators. However Tuppen who has served on GRI committees cautions: 'The GRI defines a whole set of indicators for companies to respond to. However the critical thing is the conjunction of what the business actually does as a business and the sustainability agenda it faces'. What the GRI does not necessarily enable is an easy focus on those things which are most critical to the stakeholders of the business and to its future commercial success.

'GRI does a great job but it is very risk-oriented and not very opportunity-oriented' says Tuppen, 'CSR is going to go much more into the market place. So how does a company communicate that to its stakeholders? What are the indicators for developing products and services that deliver sustainable services – as opposed to indicators that talk about conditions in the supply chain which are more risk-orientated?'

BT, says Tuppen, seeks to stay focused on the key issues by adopting rigorous 'materiality' assessments and not wasting time on the unimportant, such as the NGO official who recently called Tuppen directly wanting to know BT's policies on whales.



'Poor performance in environmental and social issues can have a detrimental impact on the value of the company.' – Will Oulton

if you invest in energy efficiency you save the business money. The problem may be that if you are only spending 2% of your total costs on energy, you will be saving a percentage of that and this is just noise in the system. Busy senior executives don't want to spend time on that because they have other more important projects that will give bigger pay backs in our cut-throat commercial world.'

All three interviewees agree that a key selling point for CSR is that it costs much more in management time than in financial investment but that done successfully, CSR integrated effectively across the business can save money and create business opportunities.

In Farnish's analysis, 'You have to consider that there is a balance sheet impact in the broader sense – some costs, some benefits. But some of the things you would write in that balance sheet are very hard to quantify – the value of the brand being a good example. You have to remember the investment in your reputation with groups of stakeholders should be like your relationship with customers, where you build up that reputation over a long long period of time'.

Anxious to be seen by both customers and investors to be practising what it preaches, BT internally maximises its own communications technology. 'Last year, throughout our global operations in 170 countries,' says Tuppen, 'we had 850,000 avoided face-to-face meetings, saved 97,000 tonnes of carbon emissions and cut £200 million in travel and associated expenses'. In his view there is still much room to improve on these figures and better technology will assist. 'Video conferencing has always been a vision and a promise and it has never really materialised. However, the new high-definition video conferencing technology is quite expensive at the moment but will certainly fall in price.' When it does, says Tuppen, it will become widely used with the same dramatic impacts for all types of business that BT has already gained.

Practise what you preach

Encouraged by the development of benchmarks such as the FTSE4Good Index, institutional investors are, says Oulton, seeking a greater understanding of how firms are addressing environmental and social impacts, risks and performance. The climate change debate has been a key driver of this.

However, Oulton cites the key role that investment managers play in developing investment strategies and products for institutional and retail investors. 'Recent research has shown that many investment managers still have a long way to go in developing the skills and practices to effectively integrate analysis of environmental, social and corporate governance issues into investment processes.

Nevertheless, he says, analyses of ESG issues is beginning to be regularly provided to investment managers by investment banks and this increasingly sits alongside the financial assessment that analysts have been doing for decades. 'There is an awareness today from investors that poor performance in environmental, social and governance issues can have a detrimental impact on the long-term value of the company. Capturing these material extra-financial impacts is what responsible investment is in practice.'

Explains Tuppen: 'At BT we have a risk register, where we consider the CSR risks hitting us and then the financial consequences if we have not mitigated them. Supply chain is important for us because we buy an awful lot of equipment from countries that might be considered high risk in terms of working conditions and human rights issues.'

The economic downturn may cause some businesses to back-burn CSR initiatives thinks Farnish: 'That is certainly a risk. However, companies are only good at CSR

when it is part of their culture and how they behave. I would hope that even now money is tight, the way in which people behave will not change very much. It may be that a company was going to invest in some fabulous new boiler equipment that would reduce carbon emissions by 30% but it cannot afford to do it so it is put off until 2012.' ■

Chris Tuppen

As director of sustainability, Chris Tuppen leads the sustainable business team which includes the co-ordination of BT's activities to manage environmental impact and tackle climate change, support sustainable economic growth and maintain world class CSR performance.



Will Oulton

Will Oulton heads up FTSE's Responsible Investment Unit. In this role, he provides a consultative role to chief executive Mark Makepeace in defining FTSE's role in the responsible investment arena, including managing and developing SRI and CG index products and services.



Christine Farnish

Christine Farnish joined Barclays in 2006 as public policy director, and assumed responsibility for Barclays' work on corporate responsibility and sustainability in 2007. She leads a global team responsible for public policy and sustainability issues across Barclays' businesses.

