

IFC Corporate Responsibility Forum - Strategies for Competitiveness and Shared Value

International Financial Corporation (IFC), a member of the World Bank Group, assembled over 200 private sector and civil society professionals to discuss ways companies can maximize the positive impact they have through community investments in developing countries.

Participants at the 2010 IFC Corporate Responsibility Forum, held June 15-17 in Washington, DC, agreed that as expectations for corporate involvement in addressing development challenges increase, the measure of success has shifted from amount of dollars spent to the degree of impact achieved. This calls for more sophisticated approaches and tools that can help companies apply greater rigor in the way they select sustainability investments and measure the value they create both for local communities and the business.

Day 1: Winning the Corporate Sustainability Challenge

The opening day of the Forum explored how sustainability challenges and opportunities fundamentally change the requirements and strategies for achieving business success. Toshiya Masuoka, Director, Corporate Advice Department, IFC and Somit Varma, Director, Oil, Gas & Mining Department, IFC, observe that:

- Global sustainability challenges are impacting and will transform the way both IFC and its business clients do business. They are changing the goods and services we need, what and how we produce them, and how we succeed in making our enterprises live long and profitable lives.
- IFC clients are taking action both to minimize their impact on the environment and on affected communities, and to build strategies to create shared value and thriving communities.

Steve Rochlin of AccountAbility framed how global social and environmental issues have already begun to "Change the Game" for business. The way for companies to succeed is to adopt strategies to produce products in ways that replenish resources; use environmentally clean materials; make employees and communities happier, more skilled, and safer; find solutions to tough issues threatening the well-being of people and planet; and be accountable for their efforts to be sustainable.

Thomas Thomason, CEO, Egyptian Refinery Company (ERC) notes that his "...main challenges are related to manage expectations, navigate government issues and develop sustainable projects." Beth Keck, International Director, International Sustainability and Strategy, for Walmart, shared how the company views sustainability as a core to business strategy. The company has set bold public targets to reduce waste and improve energy efficiency. It has also made commitments to encourage responsible practices through its supply chain.

"There is a lack of a common language between investors, Boards of Directors, and companies on sustainability." Sheila Bonini, McKinsey & Company

Dow Chemical is an example of a company that is beginning to change its approach to product design, development and innovation. Bo Miller, its Global Director, Corporate Citizenship, discussed how Dow has successfully launched new products to support energy efficiency and improved environmental performance.

Luis Iseppe, Global Product Specialist, Sustainability Strategy Advisory, IFC, suggests that companies can follow a clear framework to meet and win the sustainability challenge. This includes:

1. Understanding, embracing, and assessing the new environment and your company's ability to manage it (knowing yourself and how you are perceived);
2. Identifying where to comply, compete, or play a different game;
3. Defining a vision and role model from the top;
4. Holding yourself accountable to clear, publicly disclosed, performance targets.

Day 2: Beyond Philanthropy – Strategic Community Investment

Day 2 featured IFC's launch of its Good Practice Handbook on Strategic Community Investment. The Handbook is based on a global review of IFC clients, good practice companies and expert practitioners across industry sectors and regions.

What excites me most about this handbook is that it takes what, for many, is still an emerging concept of "strategic" community investment and lays out a clear methodology and practical set of tools for companies grappling with the question of "how?" - Rachel Kyte, VP Advisory Services, IFC

The major theme of the day: strategic companies focus investments on a few key areas that can have the biggest impact create shared value for both stakeholders and shareholders.

"We used to spend our money all over the place on various initiatives....Now we've learned to focus on 3 areas related to our business where we can make the biggest impact: rural development, water and nutrition. Our challenge is how do we better leverage these areas to create "shared value" including shareholder value?" – Niels Christiansen, VP Public Affairs, Nestle

Key to this approach is to have a clear business case that aligns community priorities with strategic business objectives.

"The business case for community investment and corporate responsibility in the Dialog Telekom story is deeply rooted in the core of the organization's business model, and in the belief that organizations have the innate power to propel triple bottom line value creation, within the communities they operate." - Michael de Soyza, Head of Public Policy and Corporate Responsibility, Dialog Axiata

Successful strategies build local ownership and plans for initiatives to sustain themselves. Multi-stakeholder processes that engage communities and government -- and building capacity along the way--is essential for building a successful community investment strategy. Eliane de Anjos, Sustainability Manager at Veracel Celulose states that achieving a better relationship with neighboring communities is critical to the

company and that the path to effective engagement is through promoting participatory planning and working with community as a partner in the selection of priority projects.

Dennis Flemming, Project Director for the Niger Delta Partnership Initiative, Chevron adds, "People make it work, not models. Identifying the right people with the right attitudes and skills to manage and participate in any initiative is critical."

Moving from "well-meaning" to a strategic approach involves building a community investment portfolio that supports your objectives, including systematically categorizing investments and allocating funds to meet both short and long term objectives.

"In an effort to professionalize our approach [to social investment] we undertook a global review of our current activities which showed that we were supporting a large number of projects that were classified as "miscellaneous". We have since developed an internal performance standard on social investment, with a selection process and a system of categorization to help us balance our portfolio. Our goal is to shift the majority of our spending toward strategic, productive activities and regional development." - Ramanie Kunanayagam, Head, Social Performance, BG Group

Day 3: Measuring Returns on Sustainability Investments

Company executives and their stakeholders alike sounded the same headline: businesses *must* measure the returns on their community, and overall sustainability investments (ROI).

The reason, according to Lance Crist, Global Head of Oil and Gas for IFC, is that the stakes are now too high to do otherwise. Companies are now core partners in achieving sustainable community development. Shareholders and stakeholders share an interest in ensuring those investments are optimized.

There is also too much evidence of ROI for business to ignore. Investors such as Calvert find expanding returns and resumed asset growth for SRI funds even in a tough economy. Penn-Schoen-Berland's research finds consumers in developed and emerging markets draw closer to "responsible" brands. Rio Tinto found returns of *over \$318 million* on their community investments.

"Investors are paying more and more attention to the issues of return on sustainability investments, but the challenge is to find metrics to look at. There were cases where Calvert decided to de-invest from companies due to the problems with sustainability issues." - Paul Bugala, Sustainability Analyst, Calvert Investments

"Consumers in the middle income countries are demonstrating willingness to pay more for products that are environmentally sound. Demonstrating that a company is a good neighbor increases trustworthiness of a company." - Beth Lester, Vice President, Penn, Schoen & Berland

IFC's Planning and Financial Tool represents a cutting edge methodology that brings new rigor to the internal valuation process. Cross-functional teams work collaboratively, utilizing stakeholder engagement, risk management, cost-benefit analysis, and financial

modeling to estimate the return (in Net Present Value -- NPV) of sustainability investments over the lifespan of a specific asset (such as a mine).

Companies such as Rio Tinto, Cairn, and Newmont find the tool demonstrates that sustainability investments are drivers of value protection and value creation.

“You have managed to bring the financial language into sustainability and community investment in a way that was accessible to all participants.” - Claude Perras, Director, Global Practice Community Relations, Rio Tinto

The process has opened new conversations between the Corporate Responsibility, Finance, and C-Suite teams. It brings financial language into sustainability and community investment in a way that is accessible to corporate responsibility and financial professionals alike.

“This process has been very significant because now the ESR team is talking numbers. The Tool can be used to assist non-finance functions to improve understanding of community investment connection to financial drivers. It may assist company in communicating in more concrete terms the business case for community investment.” - Walter Richards, Regional Controller Africa, Newmont Ghana

Cairn has used it to show how community investments drive value. This has led to deepening, strategic commitments to sustainability.

“SMS Text Program for Farmers enabled farmers to use SMS texting not only to receive information on farming and market prices, but also to report five cases of pipeline security issues. Cairn’s response to these messages avoided pipeline leakage and damage that could stop crude flow for at least one day at a cost of USD 2 million.” – Deepak Arora, Deputy General Manager - CSR, Cairn Energy India

Overall, the IFC Corporate Responsibility Forum provided an opportunity for businesses from a variety of industries and regions to share and learn good practices, and discuss vital emerging trends with one another, IFC, World Bank staff, civil society representatives, and thought leaders.

Nathan Monash, Manager, Sustainability, AngloGold Ashanti captures the key themes of the Forum. “We must make sustainability relevant to colleagues from other functions. There is a need to integrate our work into core business functions: we cannot expect special treatment nor budgets; we must be strategic and demonstrate where we bring value; be transparent about the costs of getting sustainability wrong and the benefits of getting it right.”