

**STRUCTURE OF SUSTAINABILITY MANAGEMENT:
OBSERVATIONS FROM HOW GLOBAL COMPANIES HAVE STRUCTURED RESPONSIBILITIES**

Composed by Frank Werner and Sabrina Pieruschka, World Environment Center (WEC)

Structure of the paper

(1) Introduction.....page 1

(2) Differentiation of the terms Sustainability, CSR/CR, Corporate Citizenship.....page 1

(3) Scientific work summarypage 2

(4) Examples of Sustainability Management Structures in global companies.....page 4

 4.1 Companies with a Coordination Committee and Sustainability/CR unit.....page 4

 4.2 Companies with a Coordination Committee, an additional inter-functional working group, and a Sustainability/CR unit.....page 8

 4.3 Companies with a Coordination Committee, and a lean organization that does without a sustainability /CR unit.....page 10

KEY RESULTS

In summary the key findings concerning sustainability management structures are:

Most companies analyzed in this survey have structured their Sustainability Management in a very similar way: they all have installed a coordination committee comprised of the main functions across the business that is responsible for recommending strategic decisions with relevance to sustainability to be decided upon at Board level. Some companies have two such coordinating circles. In such cases, one is responsible for deciding upon strategic initiatives while the other one prepares these. And, in addition, most of them have installed a Sustainability/CR unit that coordinates the decision making processes and initiates new developments.

- The company’s Executive Board is generally actively involved in strategic decisions
- A Coordination Committee comprised of the main functions across the business takes operational decisions
- A Sustainability /CR unit coordinates decision making processes. In very lean governance structures is done by a single coordinator
- Representatives at operational level guarantee implementation

The value of such structures is supported by recent scientific studies that recommend exactly such governance structures due to the cross-functional character of sustainability management.

(1) INTRODUCTION

WEC was asked by its member company Beiersdorf to analyse the current state of how global companies structure their sustainability management, e.g. to provide information about the organization and interplay of the different bodies that are responsible for sustainability management. This research is necessary for Beiersdorf as the company is currently deciding upon how to best reorganize its functions that manage sustainability.

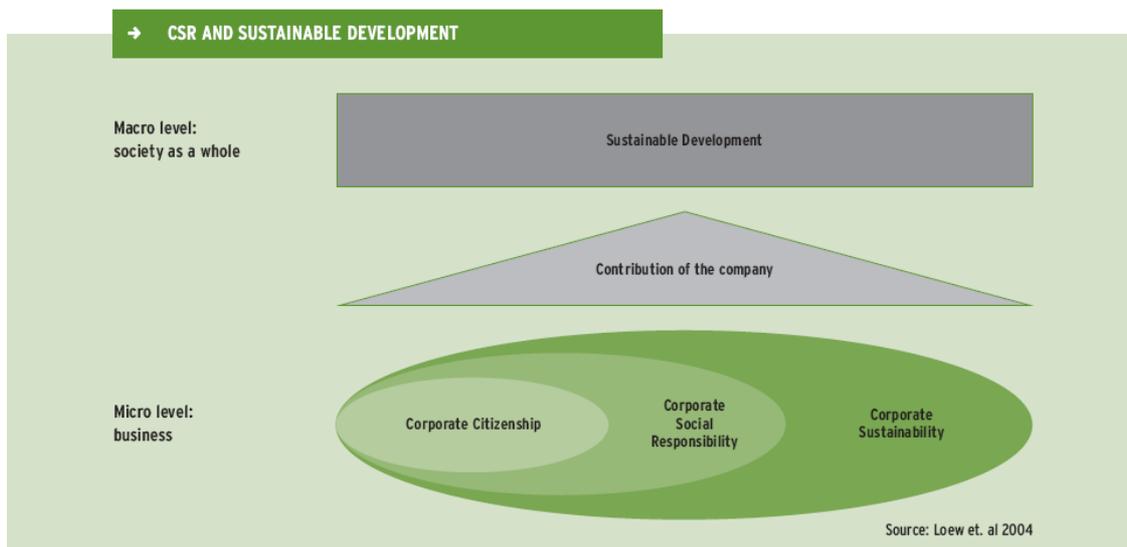
WEC evaluated the major scientific work available to the issue and at the same time analyzed the organizational charts available from a number of companies that are recognized for their leadership in managing sustainable development. These include both German and international companies (BASF, Bayer, BMW, BP, Coca-Cola, GE, F. Hoffmann-La Roche, Henkel, IBM, Marks & Spencer, Rio Tinto, RWE, Shell, Siemens, Vodafone, Volkswagen, Wal-Mart). Some of them, unfortunately, do not disclose information about their corporate sustainability governance and one organizational chart.

(2) ONE THOUGHT – MANY TERMS: DIFFERENTIATION OF THE TERMS SUSTAINABILITY, CSR/CR, CORP. CITIZENSHIP

The European Commission describes CSR (Corporate Social Responsibility) in its Green Paper of 2001 as a concept, “whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”. The European Commission’s view of CSR encompasses all voluntary actions through which companies contribute to sustainable development in their core business (see figure below). CSR also includes charitable giving, sponsorship, support for not-for-profit foundations and releasing employees for voluntary work in community and social projects. Such activities, usually referred to as Corporate Citizenship, are therefore part but not the core of CSR.

The German Federal Government, the majority of German trade associations and the country’s trade unions essentially agree with the European Commission’s definition of CSR. The way that companies implement and communicate CSR in practice, however, indicates that actual understandings of the concept vary. And in the UK, for example, many companies nowadays prefer to speak of CR (Corporate Responsibility) while in the U.S. the term “Corporate Citizenship” has been introduced back in the 1990’s – and still they all mean something that is defined by the EU as CSR.

Although these terms in business practice generally refer to a process called sustainable development they may not include the business aspect so well. Building a company’s business around sustainable products and around solving societal challenges is (in our opinion) an add on to running a responsible business (>CSR/CR) and therefore even more ambitious. Thus, companies that also strive for the business opportunities of sustainable development have good reasons to refer to the term sustainability.



(2) SCIENTIFIC WORK SUMMARY

(2.1) Ideal structure of Sustainability Management

Sustainability/CR is a typical interdisciplinary function. Therefore its implementation is ideally coordinated centrally by a Sustainability/CR unit or at least a Sustainability/CR-Manager. This unit sets a framework and encourages effective implementation of its goals through further consulting processes.

Existing speciality departments or operating units that already manage single sustainability/CR issues should ideally continue with their decision-making duties as their proximity to the issues at stake is of great value. Large companies have typically created a central unit AND a steering committee responsible to coordinate cross-sectional tasks. The latter is staffed by representative from different parts of the company and/or subsidiary companies.

Coordination will be most efficient if a specific contact person is clearly nominated for each area of the company and, where applicable, each subsidiary company. The existing environmental management system should be incorporated as a central pillar of the coordinating structure.

At the same time it is of greatest importance that the overall responsibility for sustainability/CR is positioned at the Board level as well as in the divisional units of the company. This provides the coordinating Sustainability/CR unit with direct access to the company’s senior management and speeds up operational decision-making.

(2.2.) Pragmatic way on reorganizing structures for effective Sustainability Management

Quite often the organization of modern sustainability management is being developed from existing structures such as a functioning environmental management unit. This is due to the fact that fast and meaningful provision of data e.g. for the sustainability report, is being derived from the strongest and most often required flow of information, and thus from the environmental department – at least in manufacturing companies – which until today produces the largest quantity of performance indicators.

However, as diverse operational functions claim ownership to their thematic issues their contribution often depends a lot on the diplomatic skills of those representing the central unit. Establishing a steering committee responsible to coordinate cross-sectional tasks can be of great value in such situations as helps to encourage an open discussion culture within the company and activates bottom-up-processes.

Sources used for this paper:

European Commission (2001): EU Corporate Social Responsibility Green Paper

Mc Kinsey (2010): Mc Kinsey Global survey results: How companies manage sustainability

Loew, Th. / Braun S. (2006): Organisatorische Umsetzung von CSR: Vom Umweltmanagement zur Sustainable Corporate Governance? Berlin.

PWC (2010): Unternehmerische Verantwortung praktisch umsetzen. Leitfaden zum Nachhaltigkeitsmanagement

Diverse Sustainability Reports of global companies

(3) EXAMPLES OF SUSTAINABILITY MANAGEMENT STRUCTURES IN GLOBAL COMPANIES

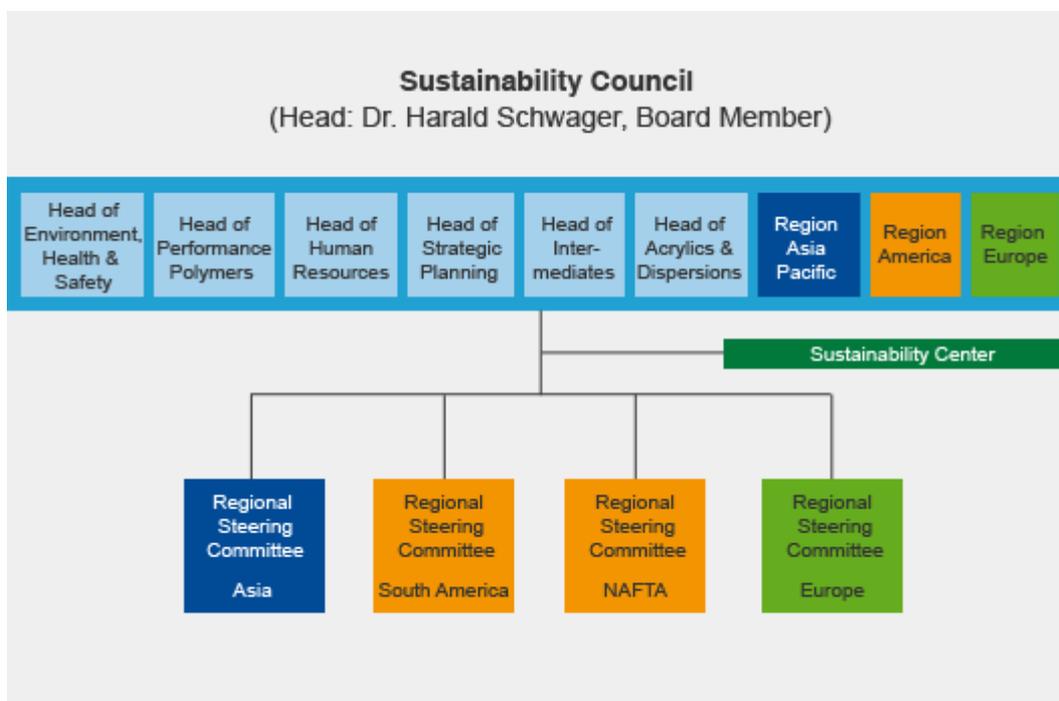
Most companies analyzed in this survey have structured their Sustainability Management in a very similar way: they all have installed a coordination committee comprised of the main functions across the business that is responsible for recommending strategic decisions to be decided upon at Board level. Some companies have two such coordinating circles. In such cases, one is responsible for deciding upon strategic initiatives while the other one prepares these. And, in addition, most of them have installed a Sustainability/CR unit that coordinates the decision making processes and initiates new developments. Those companies, that have not installed a unit, have decided to appoint a coordinator who fulfils this function.

- Executive Board is actively involved in strategic decisions
- Coordination Committee comprised of main functions across the business takes operational decisions
- Sustainability /CR unit coordinates decision making processes
- Representatives at operational level guarantee implementation

(3.1) Typical examples of companies with a Coordination Committee and Sustainability/CR unit are four (out of eleven) companies in this survey:

BASF

- ✓ Board actively involved
- ✓ Sustainability Council headed by board member
- ✓ Sustainability Center
- ✓ Regional Steering committees



Source: BASF Homepage, section sustainability

Marks & Spencer

- ✓ Board actively involved
- ✓ Committee across business functions chaired by the CEO
- ✓ Sustainable Business unit with divided areas of responsibility for major sustainability issues
- ✓ at operational level: Champions to realize targets

How We Do Business Governance This diagram illustrates the way that How We Do Business activities are led and reported across the Company.



How We Do Business Committee as of May 2009

Sir Stuart Rose	Executive Chairman and Chair of Committee
Steven Sharp	Executive Director, Marketing
Richard Gillies	Director of Plan A and Sustainable Business
Dominic Fry	Director of Communications
Tanith Dodge	Director of Human Resources
Steve Rowe	Director of Retail and M&S Direct
Nayna McIntosh	Director of Store Marketing and Design
Clem Constantine	Director of Property and Store Development
Heather MacRae	Corporate Governance
Krishan Hundal	Head of Technology, General Merchandise
Paul Wilgoss	Head of Technology, Food Division
Susan Aubrey-Cound	Executive Assistant to Sir Stuart Rose
Mike Barry	Head of Sustainable Business
Adam Elman	Plan A Programme Manager and Secretary

Source, *How We Do Business Report 2009*

Siemens

- ✓ Board actively involved
- ✓ Sustainability Board chaired by Board member includes representative from group functions and divisions
- ✓ Corporate Responsibility working group

Coordination and implementation

The Siemens Sustainability Board, chaired by Barbara Kux in her capacity as Chief Sustainability Officer, includes managers on the Sector and Division levels, relevant technical functions at the Corporate level, and representatives of the largest Siemens Regional Companies. Other managers may take part, depending on the specific agenda. The Sustainability Board is responsible for developing our sustainability strategy and the sustainability program, and for monitoring and reporting on our sustainability performance. In its work the Board pursues three goals in particular: Reaching the targeted revenue goals for the Environmental Portfolio, reducing CO₂ emissions, and improving internal sustainability performance. The Sustainability Board meets a number of times during the fiscal year to discuss key sustainability issues related to the defined targets and jointly work out proposals for solutions. If a Board-level decision needs to be made to implement a proposal, the Chief Sustainability Officer brings the matter before the Managing Board.

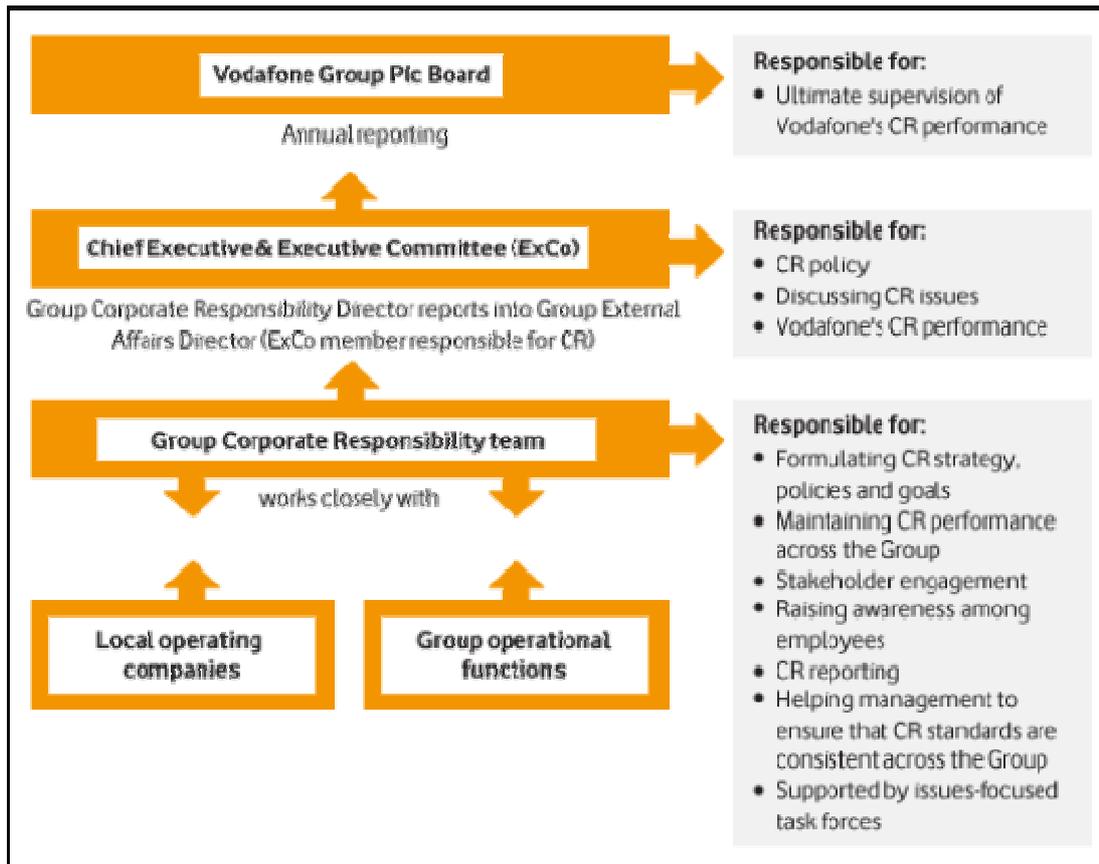
In addition, the CR working group created in 2006 continues to develop and expand our sustainability reporting and assist in the creation of this Report. It also processes the assessments for major sustainability ratings. The named persons are responsible for implementing company strategy and the associated management of the focus areas of integrity, sustainability, and diversity.

Source: Siemens Corporate Responsibility Report 2008

Vodafone

- ✓ Board actively involved
- ✓ Group Executive Committee (ExCo)
- ✓ Group Corporate Responsibility team
- ✓ Local operating companies

The Group Executive Committee (ExCo) is responsible for CR policy and discusses CR issues. The Group CR Director reports to the Group External Affairs Director, who is the ExCo member with responsibility for CR. CR performance is reported to the ExCo every month and a report is made annually to the Vodafone Group Plc Board. The Chief Executive is ultimately responsible for Vodafone's CR performance.



Group CR team

Our Group CR team manages issues at a global level and is responsible for:

- Formulating CR strategy, policies and goals
- Monitoring performance across the Group
- Stakeholder engagement
- Raising awareness among employees
- CR reporting
- Helping management to ensure that CR standards are consistent across the Group.

Our Group CR team works closely with local operating companies and Group operational functions on all these activities.

Source: Vodafone CR Report 2009

(3.2) Typical examples of companies with a Coordination Committee, an additional inter-functional working group, and a Sustainability/CR unit are four (out of eleven) companies in this survey:

Bayer

- ✓ Board member actively involved
- ✓ Coordination Committee including Board members of Group companies + heads of Corp functions
- ✓ Community Council for Sustainable Development with head of unit Environment & Sustainability + sustainability officers of group companies (sometimes involves unit HSEQ or unit politics)
- ✓ Unit Sustainability and Environment



Source: Bayer Sustainable Development Report 2008

IBM

- ✓ Senior VP Marketing and Communications with strategic responsibility
- ✓ Corporate Citizenship Committee comprised of senior executives from different functional areas across the business chaired by VP Corporate Citizenship
- ✓ Corporate Citizenship working group consists of representatives from the major functional areas that meets on a monthly base
- ✓ Corporate Citizenship & Corporate Affairs Unit

Corporate Citizenship Steering Committee

Our Corporate Citizenship Steering Committee is comprised of senior executives from functional areas across the business and chaired by the vice president for Corporate Citizenship. The Committee meets periodically to provide leadership and direction on key citizenship issues. Each functional area is responsible for the development of its own corporate citizenship goals and strategy, with organizational-wide goals approved by the Steering Committee.

Corporate Citizenship Working Group

Our Corporate Citizenship Working Group consists of representatives from 11 functional areas (including global representation) and meets at least monthly to manage IBM's corporate citizenship activities, reporting and stakeholder engagement across the company. The Working Group reviews key policy and strategic decisions with the Steering Committee throughout the year.

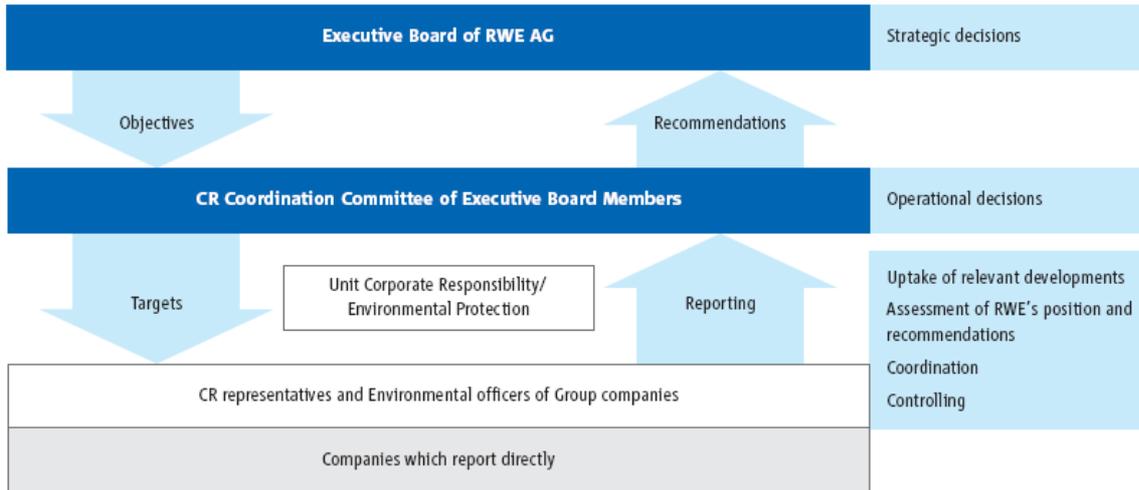
On a day-to-day basis our activities are managed in an organization called Corporate Citizenship & Corporate Affairs, which reports to the senior vice president for Marketing and Communications.

Source: IBM, Homepage, section Corporate Responsibility

RWE

- ✓ Board actively involved
- ✓ Coordination Committee of Executive Board members
- ✓ Unit CR
- ✓ CR Representatives of Group companies

Structure of CR Management at RWE AG

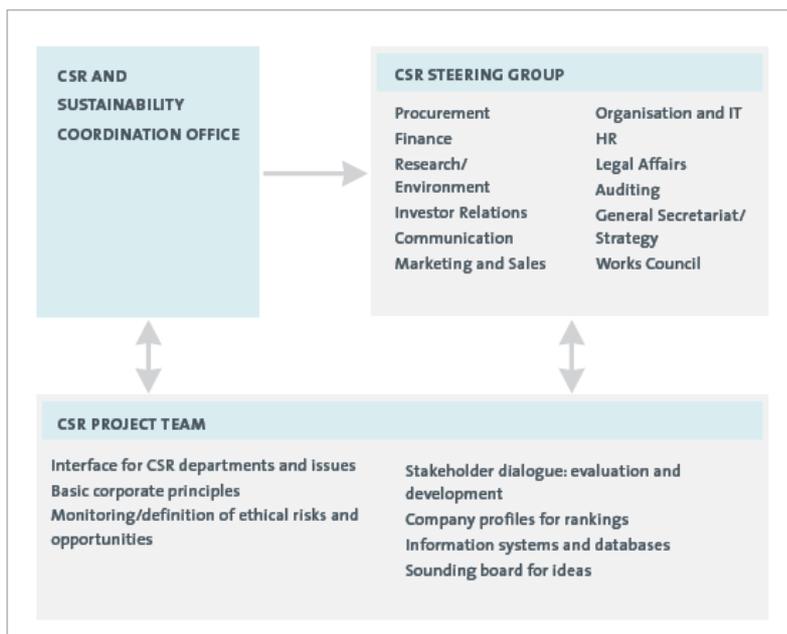


Source: WEC CR Report 2009

Volkswagen

- ✓ No information as to extent of Board level involvement
- ✓ CSR and Sustainability Coordination office
- ✓ CSR Steering Group made up from all corporate functions
- ✓ CSR Project team

COORDINATION CSR AND SUSTAINABILITY



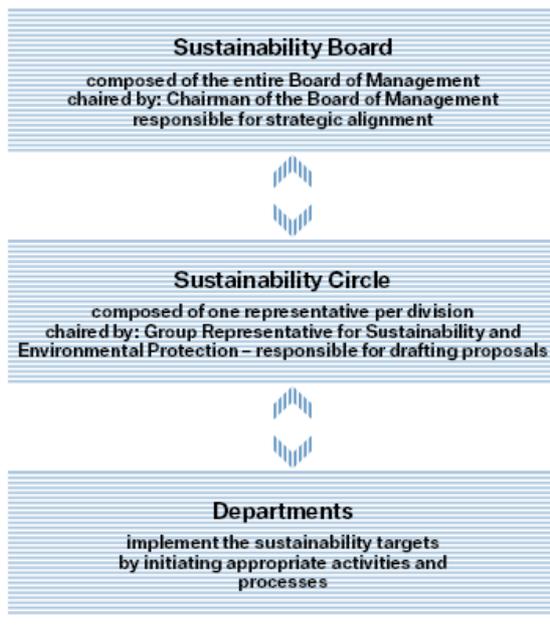
Source: Volkswagen Sustainability Report 2009

(3.3) Typical examples of companies with a Coordination Committee, and a lean organization that does without a sustainability /CR unit are three (out of eleven) companies in this survey:

BMW Group

- ✓ Board actively involved
- ✓ Sustainability Circle composed by one representative per division chaired by Group representative for Sustainability and Environment
- ✓ Departments implement sustainability targets

BMW Group sustainability organisation



Source: BMW Sustainable Value Report 2008

F. Hoffmann-La Roche

- ✓ Board actively involved (Corporate Executive Committee and Board Corporate Governance and Sustainability Committee)
- ✓ Corporate Sustainability Committee composed of representatives from all core functions and business across the group

Managing corporate responsibility

Corporate responsibility is an integral part of our daily work rather than the duty of a single department. Our Corporate Sustainability Committee (CSC) coordinates our approach. With representatives from all core functions and businesses across the Group, the CSC reports to the Corporate Executive Committee and the Board's Corporate Governance and Sustainability Committee. The CSC works to identify and assess significant social, ethical and environmental risks as well as related opportunities. It also develops and revises corporate positions and guidelines on topics of key interest to our stakeholders. In October 2009 the CSC held its fifth annual workshop, attended by around 60 employees across the Group.

Source: F. Hoffmann-La Roche Annual Report 2009

Henkel

- ✓ Board actively involved
- ✓ >Sustainability Council headed by Chairman of Management Board and formed by members from business sectors and corporate functions
- ✓ >Regional and national companies

Organization for sustainability



The Henkel Management Board bears overall responsibility for our sustainability policy. The Sustainability Council, whose members are drawn from all areas of the company, is headed by the Chairman of the Management Board. As a central decision-making body, it steers Henkel's global sustainability activities. Its members represent the business sectors and all corporate functions. henkel.com/sr2009 → 16

Source: *Henkel Sustainability Report 2009*