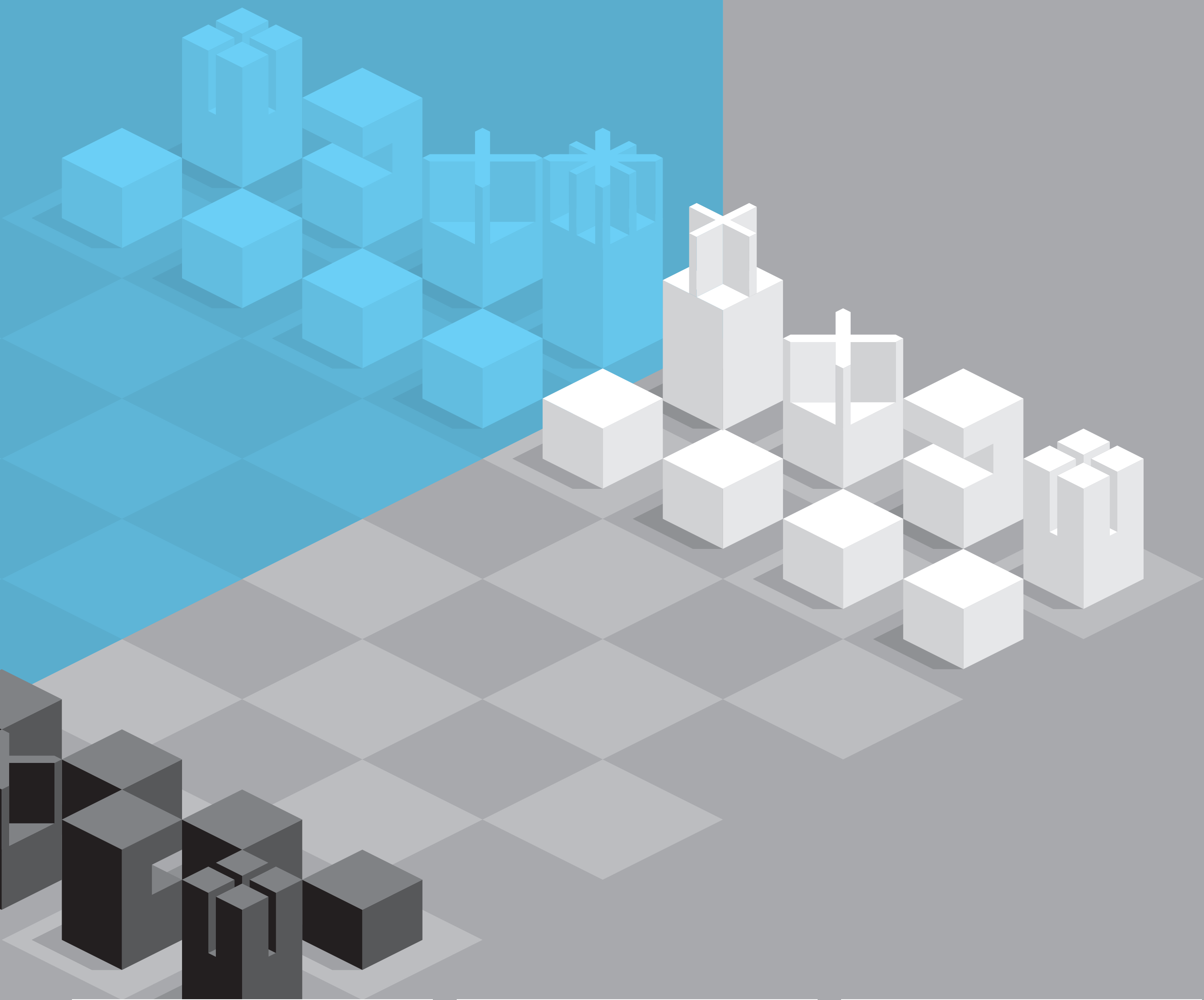
Coming in from the cold
Public affairs and corporate responsibility



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Contents

Foreword

It is our experience that for too many companies, corporate responsibility and corporate public affairs exist in two separate universes with little effort to establish common approaches or understanding between them. We believe that this represents a huge wasted opportunity to deliver greater value to individual companies and to society by developing more effective and strategic approaches to these two disciplines.

This briefing represents the principal output from a joint initiative undertaken by Blueprint Partners, SustainAbility and WWF-UK. Our purpose in carrying out the work has been to better understand the relationship between the corporate responsibility and public affairs agendas within companies, and in particular to explore the views of one important external stakeholder in business – the investment community.

For WWF, this work is important as it believes progress towards environmentally sustainable business necessitates a strong relationship between a corporation's responsibility statements and its public affairs agendas.

Our findings suggest that the relationship between public affairs and corporate responsibility is indeed of interest to investors – and that this is likely to grow. In contrast, the evidence suggests that very few companies are thinking strategically about how to align their work in these two areas.

While we acknowledge that these issues and the views of important stakeholders requires further study, we hope that this briefing proves useful in helping to mark out the emerging agenda. We also invite readers to join us in further work on this important subject.

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Executive summary

The aim of this briefing is to explore the relationship between corporate responsibility activities and corporate public affairs, and in particular to consider the current interest and future role investors may play in driving a more coherent and strategic approach between these two corporate functions. We review current practices in reporting on public affairs activities from the corporate sector (section 2), summarise the perspectives of investors on the importance of public affairs activities (section 3) and set out a series of conclusions and 'hot topics' emerging from this debate (section 4).

The primary audience for the briefing is corporate executives including specifically board level directors with responsibility for governmental and public affairs and senior officials with responsibility for corporate affairs, sustainability and corporate responsibility. We also expect the briefing to be of interest to governments and politicians, trade associations, public affairs agencies, investors and non-governmental organisations (NGOs).

Key conclusions

The principal conclusions from the work are as follows:

1 **Technology** is driving greater visibility of issues and moving them into view for large parts of civil society, creating wider networked groups of involved — and often very vocal — stakeholders.

2 Engaging effectively in this more complex and transparent policy environment further emphasises the importance of corporate reputation, openness and **transparency** of action.

3 Society is exercising greater scrutiny and concern about corporate practices related to sustainable development. It is shifting from focusing on direct impacts to addressing the wider **influence** businesses have on the public policy environment and the way businesses behave in this environment.

4 To date leading businesses have responded by demonstrating increased transparency around specific policy positions on key issues, but appear still to be responding from a position of **risk management**.

5 In turn this means that other stakeholders — namely the mainstream investment community — are showing more **involvement** in assessing the public affairs activities of companies as part of a full view of business performance and in some cases are now driving measurement of business activity in this area.

6 Furthermore, market failure and the need for **systemic change** are also emerging as key areas of concern for some leading investors. This in turn is underlining investor interest in corporate public affairs activity. These investors single out businesses that are protecting future value through active shaping of policy frameworks to address key social and environmental issues, as exhibiting smart management.

The implications of these shifts are profound. Critically, the interest of some mainstream investors in corporate public affairs activities requires a re-think of the role and nature of this work.

7 In particular, investor interest is helping to drive a shift in the role of public affairs from a somewhat specialist, behind-the-scenes activity, to a critical **business function** to be managed, aligned and measured alongside other business-critical activities.

8 A growing, and as yet largely unmet, need for more information on public affairs activities and governance represents a significant **opportunity** for business to communicate more openly and more strategically about the overall objectives and value of public affairs activities.

Introduction

1

The power of networks

One of the defining features of the late 20th and early 21st centuries has been the extraordinary impact that new technologies have had on the way companies, individuals and governments organise themselves. Technologies such as the internet and mobile telephony have helped to restructure the workplace and in the process have had a profound impact on the way businesses are managed and run. Instead of being predominantly hierarchical organisations, businesses have chosen to outsource activities to a network of independent enterprises. Whether this involves software development, research and development facilities, accounting or customer services, most large enterprises now resemble networks more than they do rigid hierarchies.[1]

In some cases businesses are even turning to their customers as a source of radical innovations for their products. **LEGO** has set up a website to enable its customers to create and share new product designs and Michael **Dell** announced in early 2007 that he sees customer-driven innovation as the linchpin of his strategy for 'Dell 2.0'. 'We need to think differently about the market and engage our customers in almost everything we do,' he says. More radically, internet sites such as **MySpace**, **SecondLife** and **YouTube** depend almost entirely on consumers to create the content that generate traffic to their sites.

This shift to networked business models is also being reflected in other parts of society. In particular, the processes in which public policy is developed are shifting significantly. Online consultations, petitions, blogs and chat-rooms allow a wide variety of participants including NGOs, businesses and even individual citizens to engage directly in shaping public policy. Critically, these technologies also allow groups to connect to parallel processes of interactive dialogue outside the strict confines of any formal legislative process. While governments are still required to mediate the legislative process, the range of tools available to stakeholders to contribute to policy development is powerfully changing the dynamics of whose voices are heard and when.

Policy development — from hierarchical to networked

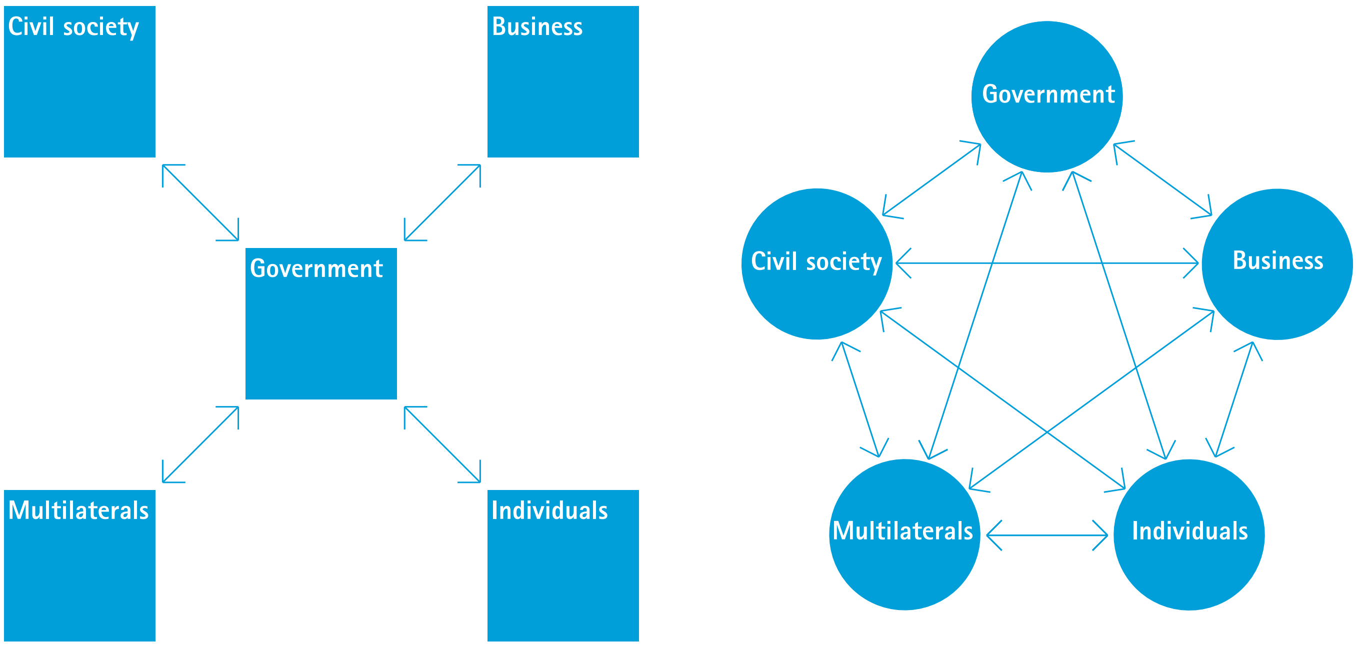

Figure 1

From impact to influence

In a separate but related trend, the emerging corporate responsibility agenda is also shifting to focus as much on the *influence* companies wield over different stakeholders as it does on their actual direct *impacts*. In part this has been driven by improvements in the environmental performance of manufacturing businesses, where in many sectors the major impacts now occur during the 'use' phase of products rather than in their manufacture.

As a result, stakeholder interest is now often focused on the role that companies are playing in influencing different value-chain partners. Leading businesses such as **HP**, **Nike** and **Volvo** focus significant efforts on influencing the social and environmental performance of their supply-chains. Financial institutions have developed criteria to ensure that their lending policies support emerging norms on social and environmental performance. Companies in the food and beverage sector are reviewing their marketing strategies and product formulations driven by concerns that their *influence* on young consumers is contributing to a global epidemic in obesity and type 2 diabetes.

In short, companies are now being held accountable for the *influence* that they have over a whole range of stakeholders – including governments and regulators. Governments and regulators too are under greater pressure to be transparent about their links to business and other lobby groups.[2]

The case for transparency

The importance of networks outlined above combined with the shift in focus to the influence that companies wield, has significant implications for the way in which companies manage their public affairs activities. Companies that wish to exercise influence in the formation of public policy are increasingly dependent on the need to establish broad cross-sector networks and coalitions at the same time as they are held individually more accountable. They are operating through processes that are themselves more integral to society at large and therefore more open to public scrutiny.[3]

In addition, companies wishing to stake a claim to leadership on corporate responsibility issues are being asked to demonstrate that their public affairs activities are transparent and consistent with wider sustainability claims and objectives. These trends are driving an alignment between those public affairs activities that are more effective on the one hand, and those that are transparent and accountable on the other.

Companies that are well placed to respond to this agenda are likely to find themselves able to influence emerging policy standards more effectively. Companies that are not will find access and influence rapidly eroding.

The rest of this briefing further explores this agenda by:

– reviewing the extent to which current approaches to corporate reporting address public affairs activities (section 2);

– exploring the perspectives of investors on the importance of public affairs activities (section 3);

– setting out a series of conclusions and 'hot topics' emerging from this debate for further study (section 4).

> 'Business leaders must become involved in socio-political debate not only because their companies have much to add but also because they have a strategic interest in doing so . . . Few companies get involved in a socio-political debate at the stage when they might be at risk for being ahead of the curve. The prevalent risk is not getting involved early enough.'
> *McKinsey Quarterly*

Summary of the methodology

The following chapters draw on two sets of data compiled for this briefing. The first, summarised in section 2, is a review of best practices in corporate reporting of public affairs activities. The 50 leader reporters reviewed were selected through the Global Reporters 2006 research programme alongside the United Nations Environment Programme (UNEP) and the financial ratings agency Standard & Poor's (S&P).

The benchmark methodology used to assess reports has also been developed alongside UNEP and S&P and provides a comprehensive framework for reviewing the quality of sustainability reporting. For this briefing we focus specifically on criteria linked to corporate public affairs activities. These include:

- **public policy and regulatory affairs**, which covers interactions with politics and public policy on sustainable development issues, including advocacy techniques (lobbying, membership in trade associations, political contributions, etc.), the content of advocacy (e.g. policy positions) and the level of transparency about these involvements
- **industry influence**, which covers efforts to influence sustainable development performance across an industry sector or across the business community as a whole including through participation in industry task forces, through industry associations, research or publications, and through the promotion of voluntary standards.

The quality of information provided by a company's report or website was rated using the scoring methodology outlined in the table below. A full copy of the methodology is available from SustainAbility's website.

In addition, section 3 summarises the results from a questionnaire sent to members of the financial community including pension fund managers, asset managers and research and rating organisations. Responses were received from 24 organisations representing over $500 billion under management (responding organisations are listed on page 13).

Definition of corporate public affairs activities

This report considers a range of corporate activities or decisions which are intended to influence public policy. These include efforts to:

- influence the outcome or direction of proposed or existing legislation;
- influence how regulators apply or enforce existing laws;
- influence the broad direction of public policy, whether at the local, national or international (e.g. through the UN or World Trade Organisation) level;
- support (either directly or indirectly) external organisations including industry associations, chambers of commerce, think-tanks, NGOs etc. in their public policy advocacy;
- develop or improve the company's relationships with government officials, civil servants or the judiciary;
- support political candidates or incumbents through, for example, monetary donations or other forms of support.

Scoring criteria

Score	0	1	2	3	4
Rating	**Absent**	**Sketchy**	**Systematic**	**Extensive**	**Integrated**
The quality of the information and approach adopted by each company was given one of the following ratings.	No information provided on lobbying. Or the company makes general references, such as a simple statement of compliance with the law on political contributions, but provides no insight into activities or impacts.	Coverage recognises the relevance of lobbying to corporate responsibility issues.	As above but information also includes signs that robust systems and processes are being developed to manage and disclose lobbying and public policy activities. The company probably discusses at least one 'material' issue in some depth.	Coverage of lobbying indicates that systems exist to manage and disclose lobbying and public policy activities. The company probably discusses policy positions on several material issues in some depth. However, the approach to lobbying is still not fully integrated with company values, business principles and core business decision-making.	As above and in addition there is an explicit link made between corporate values and principles, core business decision-making (including corporate governance) processes and a company's approach to public policy. There is likely, for example, to be evidence of a decision-making process leading from basic values and principles to specific business objectives and lobbying that supports these objectives.

Figure 2

The public life of public affairs

2

Public reporting of corporate responsibility performance has become established as a key route to building greater trust among stakeholder groups. Building trust in corporate public affairs activity is increasingly seen as critical to public affairs and wider corporate success as outlined above, so how well do leading companies currently report on their public affairs (PA) activities? This section provides some detailed insight into the extent to which 50 leading reporters from around the world address PA activities in their published corporate responsibility (CR) or sustainability reports and on their websites.

Public reporting of public affairs activity is still a minority pursuit

The most striking finding from the review of corporate responsibility reporting is that, as a relatively new topic in published reports, PA activities are among the areas of business management and performance that are least reported by companies.

The Global Reporters 2006 analysis, carried out in partnership by SustainAbility, Standard & Poor's and UNEP, found that public affairs attracted the second lowest score out of the 29 criteria that are considered, with an average score of 1.7 out of 4.

Overall poor performance masks some excellent reporting by a handful of companies

However, this low overall score does mask some outstanding reporting from a small group of leader companies including **British American Tobacco** (BAT), **British Telecom** (BT), **Co-operative Financial Services** and the Swiss retailer **Migros**. The full table of scores is given below.

The quality of reporting appears to be slowly improving

The overall score from the 2006 analysis, while weak in comparison with other criteria does, however, compare favourably with a similar analysis conducted in 2005 on the S&P 100 companies.[6]

Leader company ranking on quality of public affairs reporting

Score	0	1	2	3	4
Rating	**Absent**	**Sketchy**	**Systematic**	**Extensive**	**Integrated**
Companies	ABN AMRO Real BBVA Daiwa Securities Group Fuji Photo Film KarstadtQuelle Nedbank Group Nissan Motor Seven and I Holdings Sony VanCity Veolia Environnement	Anglo American Platinum Enel SpA Henkel Kesko Natura Philips Rabobank Statoil Suez Watercare Services Westpac Banking	Adidas Group BAA BHP Billiton DSM Ford Gap Inc General Electric Mecu MTR PotashCorp SAS Shell Group Telus Vodafone	ABN AMRO Anglo American BP GSK HP Lafarge Nike Novo Nordisk Rio Tinto Unilever	British American Tobacco BT Co-operative Financial Services Migros

Figure 3

This larger group achieved a score of just 0.8 out of 4. The difference in score is not perhaps surprising given that the S&P 100 represents the world's largest companies, while the Leader 50 has been selected specifically as representing best practice in corporate sustainability reporting. Nonetheless there is evidence that the quality of reporting has improved, with the companies that were assessed in both rankings improving their scores by an average of 20%.

Leader companies exhibit a particular focus on issues that are deemed to be material for their business

In common with other aspects of corporate reporting, leader companies are becoming much more adept at identifying key material issues for their sector and business. This focus is clearly apparent in reporting on PA activities, with companies focusing on specific material issues for their businesses. For example, the **British Airports Authority** (BAA) explains the company's position on public policy relating to infrastructure development. The mining giant **BHP Billiton** provides specific detail on their public affairs activities concerning uranium development, and **BAT** highlights their position on legislation around the minimum age for smoking.

A significant number of companies report that they are actively supportive of specific regulations

In a departure from previous reports, a significant number of companies cite their active support for specific regulations on key social or environmental issues. The European 'REACH' regulation for example is explicitly supported by a wide range of companies such as **Adidas**, **BP**, **Co-operative Financial Services**, **DSM**, **Henkel** and **Unilever**. Climate change, however, emerges as the most popular topic in corporate reports with public policy frameworks on the topic explicitly endorsed by companies including **BHP Billiton**, **BP**, **Co-operative Financial Services**, **Lafarge**, **Migros**, **Rabobank** and **Shell**.

More infrequently, companies report and explain their opposition to regulatory frameworks with just **Ford** and **Volkswagen** willing to provide some detail on the PA work aimed at stopping, or at least significantly altering, policy proposals on vehicle emissions controls.

Other notable highlights from the research included:

- the provision of detailed links and summaries of activities undertaken by companies (e.g. **BT**, **HP**) working with trade associations on key social and environmental issues and – very occasionally – funding levels associated with these memberships (e.g. **Migros**);

- marked differences between companies from different regions. For example, none of the five Japanese companies in the Leader 50 provide any information on public policy activities. In contrast, of the ten companies from the UK, the average score is 3.

Coverage of overall 'philosophy' and approach to public affairs not widely reported

As highlighted, a growing number of companies provide detailed summaries of specific policy positions, but few step back to provide the wider story. This approach may reflect the more tactical profile of public affairs activities that many companies adopt – focusing on short-term policy and financial objectives rather than long-term strategic positions.

The auto industry in the US has for example been singled out for excessive focus on short-term lobbying objectives that have undermined the sector's longer-term competitive position.[7]

Of the leader companies few report on the broader 'philosophy' that they bring to their public affairs activities, and the extent to which this supports their longer-term business strategy positioning. **GE** is a notable exception, providing some insights into the company's objectives with regard to public affairs activities, and setting itself a goal to become more actively involved in energy and health policy issues. The Brazilian cosmetics company **Natura** has also set itself a target to fully integrate its public policy work and corporate responsibility strategy.

Best practices: BT

BT is one of a handful of companies that achieves a score of 'integrated' in the 2006 analysis. Among other things, **BT** provides detailed information on:

- the trade and business associations of which the company is a part;

- specific policy positions on key issues for the organisation (such as universal service obligations, mis-selling of telecoms services and digital inclusion);

- the wider influence that the company has on the ICT sector including through joint industry initiatives and supply-chain activities.

Investing in public affairs

3

For some time, the main driver for corporate reporting on public affairs has come from academics, NGOs and wider civil society.[8] Typically, other stakeholders such as investors and customers have been less vocal on this aspect of the CR agenda. This now appears to be changing. As noted above, companies themselves are becoming more vocal in setting out their own positions with regard to key aspects of legislation. The survey carried out for this briefing suggests that investors are also becoming more actively engaged in considering the public affairs activities of companies.

In fact, in many cases investors already consider the public affairs activities of companies they invest in; furthermore, a significant proportion expects these activities to become more important in the next few years

While current levels of corporate reporting are quite limited, just less than two-thirds (65%) of survey respondents currently consider the public affairs activities of the companies in which they choose to invest. This represents over $320 billion of funds under management. Furthermore, nearly half of these investors consider that corporate public affairs activities will become more important for investors in the next 2–3 years, with only one respondent suggesting that interest in the issue will decrease over this time.

Reputational risks associated with public affairs activities seen as critical by many investors

The principal driver for the importance of corporate public affairs activities stems from interest in social and environmental issues more generally — and the growing potential for reputational risks from public affairs activity that is seen to be at odds with wider societal concerns. Climate change is seen as particularly important in this regard, with several organisations focusing specific research on company positions on public policy related to climate change. Some investors go further, however, and believe that the issue represents a test case for future sustainability issues that cross over to become controversial mainstream issues. For these investors, corporate PA activities and the specific policy positions that companies adopt are already significant considerations.

Some investors see the issue as a strong indicator of quality of management

For a significant number of investors, reputational risk emerges as the central driver of interest in PA activity. However, for a small but influential band of respondents, links between PA activity and corporate responsibility are seen as more strategic. Initiatives such as the US Climate Action Partnership,[9] the Institutional Investors Group on Climate Change[10] and WWF's One Planet Business Programme[11] all aim to reshape the systems that govern the behaviour of the private sector. These investors see such efforts as central to the protection of future value by helping to create enabling conditions and frameworks that address key social and environmental issues (see case study below).

Are public affairs criteria considered in company assessments?

65% Yes
13% N/A
22% No

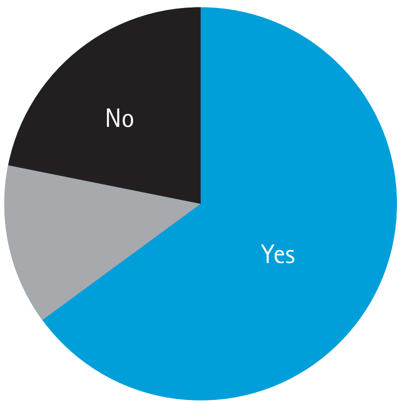

Figure 4

Strategic public affairs and corporate responsibility — the case of the US Climate Action Partnership (USCAP)

The USCAP is one of several corporate initiatives aimed at encouraging governments to develop regulatory frameworks to tackle climate change.

While the participating companies undoubtedly recognise the reputational benefits of participation in this joint corporate/NGO initiative, they lay particular emphasis on the strategic value of their involvement in helping to shape policy frameworks that support business performance. Among the principal objectives of the USCAP is to encourage regulators to recognise both the importance of technology, and the need to create economic opportunity and advantage through regulatory frameworks.

This approach of proactive engagement with policy frameworks — combined with the greater coherence between corporate responsibility and public affairs that such positions demand — is seen as an important indicator of smart management. As one investor put it, 'We look at company lobbying activity in order to see if there is consistency between what management is saying externally and what they are pushing via their lobbying presence. It is an input for how we assess the quality of a management team.'

NGOs and institutional investors are considered the most important drivers for information on corporate public affairs activities . . .

Survey respondents identified NGOs and activist groups along with institutional investors as being the most important drivers for information on corporate public affairs activities. NGOs have traditionally played a key role in advocating for greater openness of corporate public affairs activities, but the interest of institutional investors is also seen as a key driver for greater openness, with two-thirds of respondents citing institutional investors as demanding information on corporate public affairs activities.

. . . with institutional investors particularly concerned with market failures as a source of substantial risk

A number of respondents suggested that they believed investors would continue to play an important role. Institutional investors in particular are seen as having a specific interest in ensuring that individual company lobbying is not at odds with the wider interests of the market, and that it does not unduly slow policy development for short term gain. Separate research focusing specifically on climate change has identified at least three types of risk to investors from this style of lobbying:

- reduced participation and access to policy-making and policy design processes and the loss of opportunities to steer policy in directions that financially benefit shareholders;
- lower anticipated returns to capital investments as science and policy move;
- reputational impacts, and in some cases litigation risk, stemming from public affairs activities that are perceived to have delayed policy actions.[12]

Several investors highlighted the distinct role that investors have to play in this area. As one respondent put it, 'Investors have a collective long term financial interest in seeing market failures corrected in an effective and efficient way, and therefore they have a role to play in promoting sensible, flexible and appropriate government intervention.'

'We look at company lobbying activity in order to see if there is consistency between what management is saying externally and what they are pushing via their lobbying presence. It is an input for how we assess the quality of a management team.'
Survey respondent

'Companies will always lobby for what is in their interests. What we have to be careful of is where lobbying is not in the interest of the market as a whole.'
Survey respondent

Information provision from companies is widely seen as inadequate

While our analysis suggests that information provision is slowly improving, investors from our survey who expressed an interest in public affairs activity almost unanimously say that companies do a poor job in meeting their information needs. 83% of our survey group stated that their information needs were not being met, with a further 74% saying that they were in dialogue with companies and had requested better disclosure from them.

Disclosure should include both the overall approach to public affairs activities as well as policy positions on material issues

Investors emphasised the need to understand a company's approach to public policy overall, and then to put this in the context of specific issues, particularly where these are deemed to be material. Some also expressed scepticism at the ability of companies to collect such information systematically. As one asset manager put it, 'Companies must become much more sophisticated and adept at gathering information on all types of corporate public policy activities across the company and in different regions of the world.'

Others sounded a note of caution. While overall there was great appetite for increased transparency on corporate public affairs activities, some respondents suggested that companies would be unlikely to volunteer this information. Instead research agencies and investors would have to rely on alternative sources coming from NGOs, the media and elsewhere. As one respondent noted, 'The most important information is the information that is least likely to come from companies themselves.'

Relationships with trade associations are seen as requiring additional transparency

Several respondents focused in particular on the need to disclose the expenditures that companies make to trade associations, political parties, lobbying groups and even charity contributions in general. For many investors this information needs to include a list of organisations active in public policy advocacy that receive corporate support — and the extent of funding or other in-kind support. 'Less hiding behind trade associations', as one respondent put it, and 'more visibility for what companies stand for and how they are promoting these positions.'

Investors are also actively engaged in public affairs activity, but few have transparent policies themselves

Investors themselves are frequently engaged in public affairs activities of their own — either through representative groups or through direct engagement with governments. Nearly two-thirds of respondents have engaged with policy makers themselves, on issues such as climate change, corporate transparency, human rights, environmental standards and executive pay. However, only 36% have their own policy that governs these activities and even fewer publicly report on these activities.

Are your information needs on public affairs activities met?

13% Yes
04% N/A
83% No

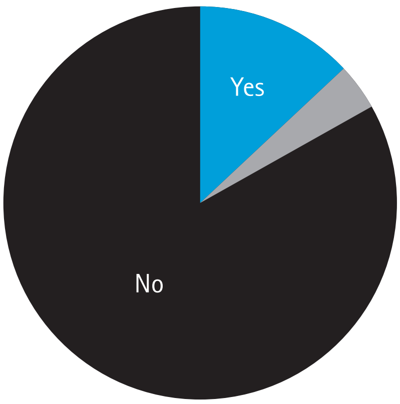

Figure 5

> 'Companies must become much more sophisticated and adept at gathering information on all types of corporate public policy activities across the company and in different regions of the world.'
> Survey respondent

Conclusions

4

Public policy coming in from the cold

This latest effort to review the quality of corporate reporting on public affairs activities suggests that leading companies are making modest progress towards greater transparency. However, we believe focusing on greater transparency solely as a response to a perceived threat from NGOs and other stakeholders risks missing a far more profound shift in the public affairs agenda. We believe this shift is driven by rapid developments in technology, interest in corporate public affairs activities among mainstream investors and a recognition of the strategic role public affairs can play on corporate responsibility issues.

We have set out our conclusions below and outline some 'hot topics' for further investigation in the following section.

Changes
Complexity
Scrutiny
Business need

The principal conclusions from the work are as follows:

1 Technology is driving greater visibility of issues and moving them into view for large parts of civil society, creating wider networked groups of involved – and often very vocal – stakeholders.

2 Engaging effectively in a more complex and transparent policy environment further emphasises the importance of corporate reputation and perception, openness and transparency of action.

3 Society is exercising greater scrutiny and concern about corporate practices related to sustainable development and is shifting from focusing on direct impacts to addressing the wider influence businesses have on the public policy environment and the way businesses behave in this environment.

4 To date leading businesses have responded by demonstrating increased transparency around specific policy positions on key issues, but appear still to be responding from a position of risk management.

5 In turn this means that other stake-holders – namely the mainstream investment community – are becoming more involved in assessing the public affairs activities of companies as part of a full view of business performance and in some cases are now driving measurement of business activity in this area.

6 Furthermore, market failure and the need for systemic change are also emerging as key areas of concern for some leading investors. This in turn is underlining investor interest in corporate public affairs activity. These investors single out businesses that are protecting future value through active shaping of policy frameworks to address key social and environmental issues, as exhibiting smart management.

Implications
Coherence
Consistency
Business performance

The implications of these shifts are we believe profound. Critically, the interest of some mainstream investors in corporate public affairs activities requires a re-think of the role and nature of this work:

'[Investors] fulfilling their fiduciary duty to their beneficiaries requires that [company management] come to understand that the sharp line . . . between stockholders and stakeholders may be breaking down.' [13]

7 In particular, investor interest is helping to drive a shift in the role of public affairs from a somewhat specialist, behind the scenes activity to a critical business function to be managed, aligned and measured alongside other business critical activities.

8 A growing, and as yet largely unmet need for more information on public affairs activities and governance represents a significant opportunity for business to communicate more openly and more strategically about the overall objectives and value of public affairs activities to investors and other stakeholders.

Hot topics for further study

Drawing on some of the emerging trends from the research, what factors might business need to take into account to respond to some of these public affairs challenges? Below we set out some questions which we hope to pursue in more depth during further dialogue and research.

Transparency and public affairs

There is an inherent tension between the demands of stakeholders for greater transparency and the reasonable needs of the business to maintain confidentiality. The specific questions this tension engenders include:

1 As a critical business activity, will transparent, open public affairs activity emerge as an area of competitive advantage?

2 If so how will efforts at greater transparency sit with commercial confidentiality?

3 How can companies balance disclosure on public affairs activities on specific issues which are likely to attract criticism from some stakeholders, while also outlining a framework approach and philosophy that builds stakeholder trust and business reputation?

4 As public affairs becomes more central as a business tool and as a measure of management quality for the financial and investment community, will this in turn create a push for more formalised reporting measures?

Public affairs and future value

As investors come to see greater value from a more strategic perspective on public affairs, how will this shape company approaches? For example, specific questions might include:

5 Can best practice around policy development and reporting lead to new business opportunities and wider product innovation?

6 What sort of criteria are investors specifically, and other stakeholders more generally, applying when they look at public affairs as a measure of business and management performance?

7 Where do individual sectors have future value at stake, and how can individual companies engage with policy frameworks to protect and enhance this value?

Coalitions and networks

A more networked approach to public policy development is driving a need for greater engagement between businesses and external stakeholders in articulating compelling positions. However:

8 Such policy formulation processes are likely to prove more unwieldy, in turn driving a greater need for coalitions that articulate shared perspectives. What are the characteristics and skills that companies need in order to do this effectively?

9 Can groups like trade associations be held to the same levels of accountability as individual businesses? Can lowest common denominator positions be seen to be consistent with company best practice?

Internal coherence

Finally, a more strategic approach to public affairs demands a greater level of coherence with other business processes and functions:

10 How should a more strategic PA approach be made more coherent with other corporate responsibility activities? Should public affairs be subject to governance oversight?

11 How can a single framework embrace different geographies, political cultures and differing public policy traditions?

Public affairs and corporate responsibility	Today	Tomorrow
Key stakeholders	NGOs and CR activist-driven	Investor-driven
Business case for linking PA and CR	Reputational risks	Future value protection
Governance	Tactical — distributed to businesses	Strategic — subject to board oversight
Reporting	Focus on detail of key policy positions	Focus on overall PA governance and objectives and key policy positions

Figure 6

Next steps

5

This briefing is intended to shed further light on the rapidly evolving relationship between public affairs and corporate responsibility. Our research has demonstrated that while corporate reporting of public affairs activity is still modest, a series of strong drivers is emerging to push public affairs into greater focus for investors and for company management.

We believe we are at an early stage in a new chapter that sees public affairs play a much greater role both in positioning companies on the corporate responsibility agenda and in enabling the protection and development of future forms of value. In order to help inform and develop best practice in this area, we plan to convene a series of workshops for companies. Our objectives will be to:

— provide a forum for the exploration of the risks and opportunities offered by a changing public policy environment;

— share best practices and insights from different sectors and regions;

— generate practical advice to companies and other stakeholders on how to address some of the questions highlighted in the previous section.

References

[1] Thomas L Friedman, *The World Is Flat: The Globalized World in the Twenty-first Century*, Penguin, 2005.
[2] For example efforts in the US following the Jack Abramoff scandal, and the European Union's Transparency Initiative.
[3] Though we acknowledge that others have argued that these changes are reinforcing existing structures and further excluding marginal groups for policy processes. See for example, Darrell M West and Burdett A Loomis, *The Sounds of Money*, Norton NY, 1999.
[4] SustainAbility, Standard & Poor's, UNEP *Tomorrow's Value: The Global Reporters 2006 Survey of Corporate Sustainability Reporting*, 2006.
[5] The methodology can be downloaded from www.sustainability.com/insight/research-article.asp?id=247
[6] For more information see SustainAbility/WWF-UK, *Influencing Power: Reviewing the Conduct and Content of Corporate Lobbying*, 2005.
[7] See for example Michael Massing, 'The curious paradox of American corporate lobbying', *Financial Times*, 28 March 2006.
[8] For example NGOs such as ActionAid, Christian Aid, Friends of the Earth and WWF as well as other organisations such as the UN Global Compact, AccountAbility and SustainAbility have published work on this topic.
[9] www.us-cap.org
[10] www.iigcc.org
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[12] Robert Repetto, *Best practice in internal oversight of corporate lobbying*, Working Paper Number 200601, Yale School of Environmental Studies and Forestry, September 2006.
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Any errors of fact or judgement are ours. If you detect any, please let us know.

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