EPCA Report

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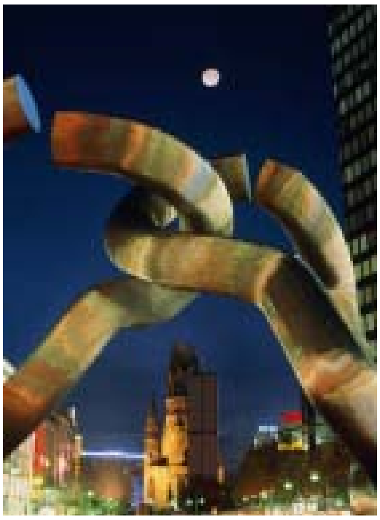

“ Social Responsibility: Chemical Industry Best in Class ? ”

Introduction

The EPCA’s 36th Annual Meeting was held in Berlin on 28 September - 2 October 2002. Welcoming delegates to the new capital of Germany during a spell of perfect, late summer weather, EPCA President **Rein Willems** of Shell Chemicals pointed out that the meeting marked the fourth occasion that EPCA had gathered in Berlin. The 1984 Annual Meeting and two Logistics Meetings, in 1992 and 2001, were the previous occasions.

Rein Willems mentioned that the attendance at the meeting - at 1,330 delegates - was the second highest on record and only 100 short of the best-ever year in 2000. It also marked a strong recovery from 2001 when the attendance at the meeting, which was held only a few weeks after September 11, dropped to 1,120. “EPCA remains the largest gathering of the chemical industry in Europe by a good margin,” he said.

Rein Willems introduced the theme of the meeting - “Social Responsibility: Chemical Industry - Best in Class?” - as one which is particularly topical considering the recent collapse of several major energy, telecommunications and information technology companies and the questionable role of some senior management personnel in manipulating the accounting practices of these companies. As a result of these well-publicised failures of corporate governance, pressures on companies to adopt a socially responsible approach across their full range of business activities are greater than ever.

Chemical companies are encountering these pressures at a time of poor growth in the world economy and uncertainties surrounding Middle East politics and the terrorist threat. In addition, the industry has a poor image in the public eye, with much of its output perceived to pose health, safety and environmental risks. Rein Willems told delegates that the prestigious speakers lined up for the 36th Annual Meeting would be examining not only the chemical industry’s commitment to social responsibility but also whether this commitment can be improved and whether it can contribute to the profitability of an enterprise.

In handing over proceedings to the moderator, **Michael Buerk**, the BBC TV news anchorman, Rein Willems said that Michael, with his friendly but probing style of questioning, is now a familiar and central element of all EPCA meetings. “It cannot be long,” said Rein Willems. “before Michael becomes known more as the EPCA moderator than the BBC news presenter, at least within our industry.”

Challenges and opportunities

The first speaker was **Evert Henkes**, Chief Executive Officer of Shell Chemicals Ltd, who gave an overview of chemical industry's stance on social responsibility before moving on to describe the Shell approach to this and the closely related business ethic of sustainable development. He stated that everyone supports the concept of sustainable development and that there is now widespread acceptance of the fact that "going green makes good business sense". In addition, there are more scrutinisers, more "stakeholders" and more transparency in the industry, all of which encourage a commitment to sustainable development. At the same time, making a commitment to sustainable development entails some of the most important challenges, and opportunities, facing the industry today.

Initially, the commitment was focused on environmental protection measures - the first pillar of sustainability. Now, however, the focus is being broadened to encompass social and economic aspects - the other two pillars. "If contributions are not made in all three areas, the roof will collapse," explained Evert Henkes. "There is no doubt that the effort required to run a socially responsible business has made the task of corporate management more difficult. Management today is more complex and more challenging than ever before. Meeting these challenges makes us intellectually richer, makes us compete more effectively and provides a way of differentiating our companies, our products and our brands."

Global perspective

Emphasising the low esteem in which the chemical industry is generally held, Evert Henkes pointed out that the public rates chemicals only slightly above the tobacco and nuclear industries but 50 per cent below IT and telecommunications. Less than 50 per cent of the public recognise the tangible benefits that chemicals have brought to our daily lives. This negative image has translated itself into a worrying recruitment trend. In the Netherlands, for example, university applications for chemistry and chemical engineering places fell by 65 per cent during the 1990s.

"Our industry has not done enough to communicate to society the value of our products or the realities of our performance," asserted Evert Henkes. "In this respect, the recent initiatives of the American Chemical Council (ACC) and the European Chemical Industry Council (CEFIC), including the latter's Long-range Research Initiative investigating the interaction between chemicals, human health and the environment, are to be applauded. Amongst other things, these efforts will help industry argue its case in response to the EU Commission's proposals to severely restrict or ban the use of chemicals according to their toxicity rather than on the basis of hazard and risk assessment and management. The chemical industry believes that the EU proposals, as currently drafted, pose a very real threat to the sustainability of Europe's chemical manufacturing sector."

Shell learning process

Evert Henkes told the EPCA delegates that the Shell Group learned early on that meeting the sustainable development challenges, and embedding the philosophy into all decision-making processes, brought benefits. Making the commitment helped group companies identify emerging business trends earlier and better understand the needs of their stakeholders. Sustainability has also proved to be a strong internal people motivator and helps in ongoing efforts to attract talented people to the company.

Shell Chemicals has incorporated sustainable development into the operating model for its manufacturing companies in the following four ways:

1. Reducing environmental impact

2. Sustaining life-cycle value chains, including through responsible waste management

3. Building social capital through internal people systems and community engagement

4. Targeted innovation in developing product technologies

Measuring performance, tracking progress

To ensure that each Shell sustainable development initiative has merit and continues to be worth developing, the company uses a system of scorecards. In 2001, on a scale of 1 to 4, Shell Chemicals companies scored an average of 1.7 on the the extent to which their business practices align with sustainable development principles. “The process is just beginning and, obviously, we have a long way to go,” admitted Evert Henkes. “However, the process is underway and with our scorecard system, we have created a means of measuring continuous improvement. Also, transparency is now an inescapable feature of business life. If a company does not provide the facts, wild accusations might carry the day. As transparency evolves, broader accountability follows.”

In recent years the world has changed from a “trust me” to a “show me” to an “involve me” mentality. In this new world the companies that engage at a local level, build trust and show good social responsibility are the ones that will prosper, said Evert Henkes. Evidence of this is given by the fact that, since 1996, companies in the Dow Jones Global Sustainability Index, not least Shell, have consistently outperformed companies in the General Index.

Warning signs

The second speaker, **Prof Dr Ernst Ulrich von Weizsäcker**, stepped to the podium to warn of the dangers that lie ahead if unfettered capitalism is allowed to proceed down the road to globalisation without the controls afforded by national governments strong enough to wield the sword of social responsibility and justice. A Member of Parliament in Germany and Chairman of the Commission of Inquiry of the German Bundestag into the Globalisation of the World Economy, Dr von Weizsäcker started by pointing out that the concept of "globalisation" is really less than 10 years old.

The globalisation process has evolved the way it has, i.e. very rapidly, nurtured by the conditions that have developed since the end of the Cold War in 1989. While the Cold War was underway, the West was at pains to show that capitalism was the best system on which to base society. A socially inclusive capitalism was developed in order to stop communism from spreading. States exerted leverage over commercial enterprises, not least through their tax policies - all of which sought to redistribute wealth on a more equitable basis, to a greater or lesser extent.

That changed with the end of the Cold War. The ability of the stock markets to generate greater returns in a less restrained business environment was recognised and governments came under pressure to deregulate and reduce taxes. As nations began to compete with each other, tax havens came to the fore. During the 1990s, said Dr von Weizsäcker, more money found its way into the Cayman Islands than all the nations of Africa put together.

"Globalisation in its current form is widening the gulf between the winners and the losers," stressed the German MP. "Core labour standards have been undermined and there has been a massive shift of expertise from the public to the private sector. The relative power of the state has suffered as a result, while that of the financial institutions has strengthened considerably."

Triangular democracy

Democracy as it is traditionally understood, i.e. the power of the people, is under threat from the pressures of global competition, said Dr von Weizsäcker. "To establish a better equilibrium between the public and private sectors, we need to move towards the the creation of what I call triangular democracy, in which civil society works hand in hand with governments and industry for the common good," he suggested. "The commitment by companies to sustainable development is a step in the right direction, but we need to do more. For example, little progress has been achieved in implementing the environmental protection measures agreed at the Earth Summit in Rio de Janeiro in 1992, even though failure to take action to curtail pollution poses great dangers."

In his own contribution to improving the environment, Dr von Weizsäcker has co-authored a book with Amory and Hunter Lovins entitled "Factor Four: Doubling Wealth and Halving Resource Use". The publication features 50 examples of how resource productivity can be quadrupled.

Meeting in the middle

Not surprisingly, the question and answer session that followed served to highlight the opposing views of the first two speakers. Evert Henkes pointed out that the capitalist system provides a valuable and unequalled opportunity to learn from experience and to grow and make progress as a result. In reply, Dr von Weizsäcker pointed out that a number of nations are much more adept at learning than others. He quoted the father of economics, Adam Smith, who said there is a need for a strong state to monitor and enforce the rules by which the business community functions.

Dr von Weizsäcker admitted that achieving the resource productivity potential outlined in his Factor Four book is not going to be an overnight success. Progress will only come as a result of a commitment by all concerned parties, including the public, or civil society. Both speakers agreed that dialogue and engagement between these elements of the triangular democracy are essential if the commitment to social responsibility is to reap benefits. Such dialogue is likely to reveal that the participants have more in common in terms of their aspirations than they would have thought possible. The two speakers also agreed that globalisation is irreversible.

Effective corporate philanthropy

The final speaker, **Professor Michael Porter** of the Harvard Business School, looked at the subject of corporate donations to outside good causes. There are basically two opposing views on the subject, he said. The first is that companies are here to make money and, if there are any donations to be made, it should be left to the individual employees to decide on which cause should receive their money. The second view is that companies are part of the community and they have a responsibility to support local good causes.

Because of the nature of the work in which it is engaged, the chemical industry is under pressure to participate in corporate philanthropy, and it is relatively generous in this respect. However, claimed Professor Porter, most corporate donations are random and do not fall within any long-term plan. Nor do they succeed in winning the industry any plaudits. Even cause-related marketing, the most popular form of strategic corporate philanthropy and an approach designed to show the company is aware and concerned about some of the risks that arise within its own industry, can end up backfiring. A few years ago, for example, Philip Morris gave $75 million to a good cause and spent another $100 million to publicise the fact it was making this donation, an approach that generated some considerable cynicism.

Professor Porter is a strong believer in the benefits that competition brings to business and society, especially through private sector innovation and other efforts to improve productivity. Recently, he has focused on the issue of corporate philanthropy, more specifically on how strategic corporate philanthropy can be harnessed to enhance the competitiveness of companies.

Michael Porter told EPCA delegates that it was time for companies to go back to first principles. By asking the classic questions of what, why, when and where to give, and how to back up the basic donation with other assets and skills, companies can devise a corporate philanthropy package that not only benefits the recipients but also brings major competitive and public image advantages to their own operations over the longer term.

New way of giving

Thus, for example, corporations can make donations to those communities in which they are seeking to establish a major presence or to educational establishments as part of a programme of ensuring a future labour pool of adequate size and technical competence. In addition, donations to causes promoting high environmental standards help to create a level playing field open only to those companies fully committed to responsible care. The issuance of grants to initiatives that will assist in the establishment of a suitable pool of supplier companies is another measure which, although it may also help the competition, will yield benefits for the benefactor. Indeed, the optimum form of corporate philanthropy is collective giving.

"It is important for the company to give more than just money, because money alone is not that effective," added Professor Porter. "The company should identify the best grantees, signal other funders and help to improve the performance of the grantee by making the necessary skills available to advance knowledge and best practices. On top of this, it will be necessary to track and evaluate the results of the donation programme."

Michael Porter finished his presentation by pointing out that corporate philanthropy will be more of a senior management function in future rather than simply a public relations activity. Chemical companies should not be reticent about bringing their philanthropy and business strategies together.

Whereas sustainable development, in one sense, is a defensive manoeuvre, designed to offset the industry's negative image, corporate philanthropy is more proactive; it accentuates the positive. As such, philanthropy will help the community to understand the company better.

Donations and globalisation

When questioned by Michael Buerk, Professor Porter estimated that more than 50 per cent of existing chemical industry donations are untargetted, unplanned and thus “wasted”. “There is currently no intellectual framework for corporate philanthropy,” he continued. “Today’s donation strategies are almost an afterthought, driven by the whims and hobbyhorses of senior management - a little like environmental policies used to be drawn up in the past.”

When Michael Buerk reminded delegates of Dr von Weizsäcker’s sentiments - that there are limits to the virtue of competition, the same competition that appears to underpin the need strategic, planned corporate philanthropy programmes - Professor Porter rose to the defence of globalisation. Globalisation protesters are ill-informed, he believed. Multinationals pay more taxes and have better environmental standards than local companies. Those hurt most of all by the globalisation process are local monopolies and corrupt governments. However, Michael Porter agreed that it is necessary for society to harness the benefits of competition and for governments to set and enforce rigorous standards.

36th Annual Meeting

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