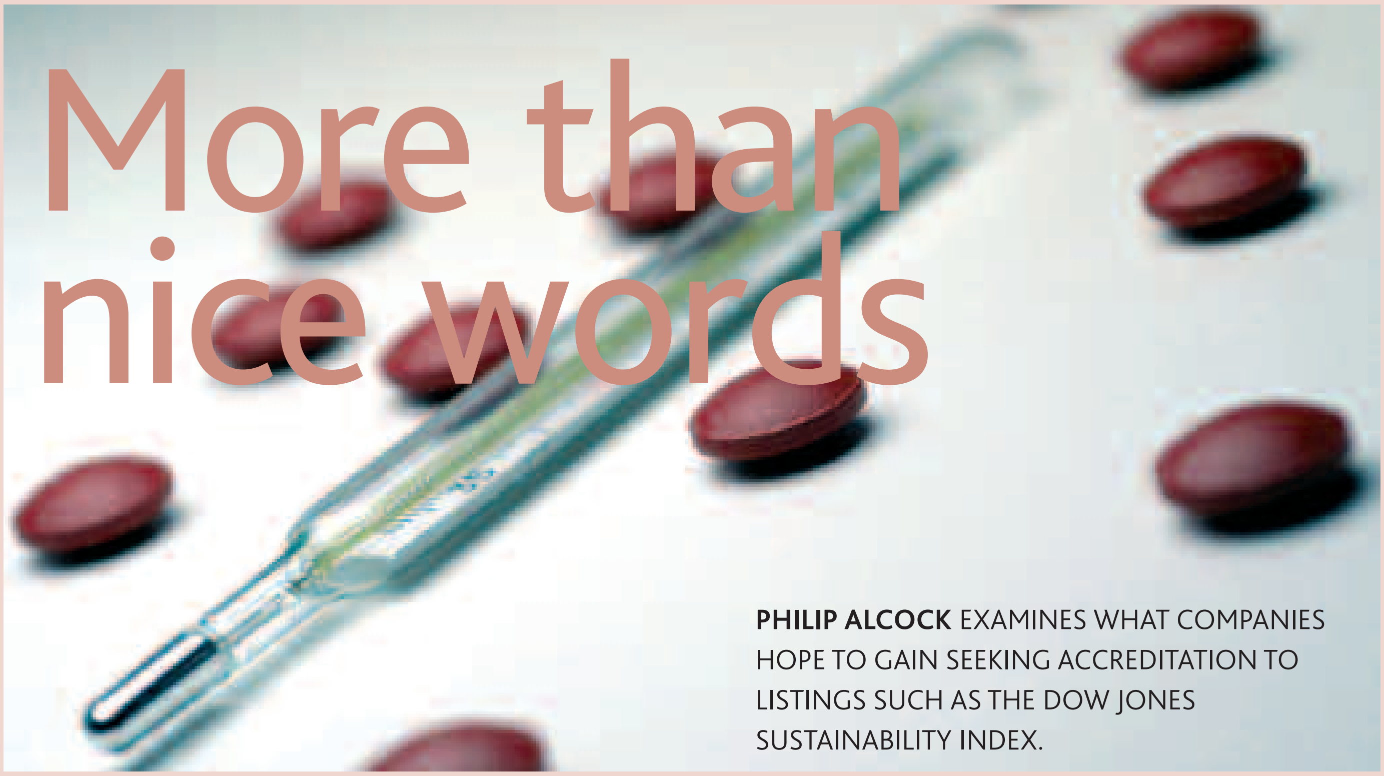

More than nice words

PHILIP ALCOCK EXAMINES WHAT COMPANIES HOPE TO GAIN SEEKING ACCREDITATION TO LISTINGS SUCH AS THE DOW JONES SUSTAINABILITY INDEX.

Like many industries, financial services has been wrestling with the impact on its crisis management and contingency planning functions of increased legislation, increasing threats of catastrophic-risk, coping with ever more complex international operations and the desire to develop the surety of its transactions at all times.

Since the advent of Dow Jones' Sustainability Index (DJSI) in 1999, over 300 organisations have successfully striven to achieve admittance to its listings.

Some of the world's largest, most diverse and best known organisations and brand names have targeted admittance to the index as a major corporate objective. The idea is to show investors, and the world at large, that they represent not only value for money but amongst the safest bets in a turbulent commercial world.

The tremors caused by the major corporate collapses of the past five years, the increasing demands of the environmental lobby and, significantly, the rise and focus of regulation and legislation around the world have made such strategic moves both inevitable and invaluable.

What does it take? The steps needed to gain acceptance on to the index provide a solid benchmark of best practice on how organisations should be strategically approaching their risk management structures. The DJSI is all about focusing attention on four main areas in relation to Business Continuity, Corporate Governance, Investor Relations, Strategic Planning and Environmental and Social Policy:

- Ownership;
- Process;
- Monitoring; and
- Transparency.

The lack of one or more of these elements has led to many organisations suffering the embarrassment of having their listing refused or removed.

For this is no corporate junket. Fly-by-nights need not apply. Only organisations with a real commitment to corporate citizenship are welcomed. Your desire to create long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments must be absolute, measurable, visible and accountable.

Nice words? Of course they are. It explains why a vast number of investors perceive sustainability as a catalyst for enlightened and disciplined management and, thus, a crucial success factor. As a result, investors increasingly diversify their portfolios to invest in companies that set industry-wide best practices with regard to sustainability.

BUSINESS CONTINUITY One of the most intriguing areas of DJSI assessment is that of business continuity.

Its very inclusion is a break-through in terms of taking Business Continuity out of the accountancy, IT or facilities management department and into the day-to-day operations of every business unit. The DJSI drives organisations to implement business continuity

Executive summary

- Many financial services organisations have now started to look to gain strategic and commercial advantage by implementing risk and contingency planning programmes that stand the glare of public, investor and commercial scrutiny.
- Organisations need to develop a commitment to long-term corporate citizenship. They need to plan in the areas of Business Continuity, Corporate Governance, Investor Relations, Strategic Planning and Environmental and Social Policy.

as an integral business discipline. No longer is it a file to be dusted off a shelf in exceptional circumstances.

The DJSI looks directly at who owns business continuity at a group level. In particular focusing on how far that ownership is from the boardroom. It also broadens the scope of traditional crisis management by looking at issue and reputation management.

As a result, the gauntlet is thrown down to organisations to address what can really hurt their survival prospects, namely, a damaged brand or reputation. Trusting to luck is no defence in the eyes of the DJSI. These matters must be managed, measured and owned.

On top of this an organisation's commitment to business continuity must be process driven. The one-off, knee-jerk 'let's write a plan to deal with the latest threat' is not only wasteful and ineffective, but is now being judged as poor management practice – and poor management practice is something not conducive to sustainability.

Commitment to business continuity planning; communication with the media, critical audiences and stakeholders; co-ordination across the organisation plus the frequent testing and rehearsing of plans, are the currency with which you can trade on the DJSI. It all comes back to the same four issues of ownership, process, monitoring and transparency.

If you cannot convince Dow Jones, then how are you to convince your investors, your suppliers and your employees?

In extremis, how will you convince a court ruling on a class action on your failures in these areas?

ONE-OFF OR LIFETIME To ensure its longevity, as a meaningful corporate and investor measurement tool, the DJSI also incorporates a long-term monitoring mechanism. At the outset both your CEO and Head of Investor Relations have to sign a 'Confirmation of Truthful Company Statements and Documentation'. However, this is not where the story ends.

The DJSI then closely monitors each organisation's behaviour in economic, environmental, social and crisis situations and compares its Business Continuity against its stated principles and policies. Failure in this area can, and has, led to an organisations' exclusion from the DJSI family regardless of financial or annual assessment.

The following issues are identified and reviewed in the monitoring process:

- Commercial Practices (e.g. tax and balance sheet fraud, money laundering, anti-trust, corruption cases).
- Human Rights Abuses (e.g. discrimination, forced resettlements, child labour).
- Industrial relations (e.g. layoffs, workforce conflicts and strikes).

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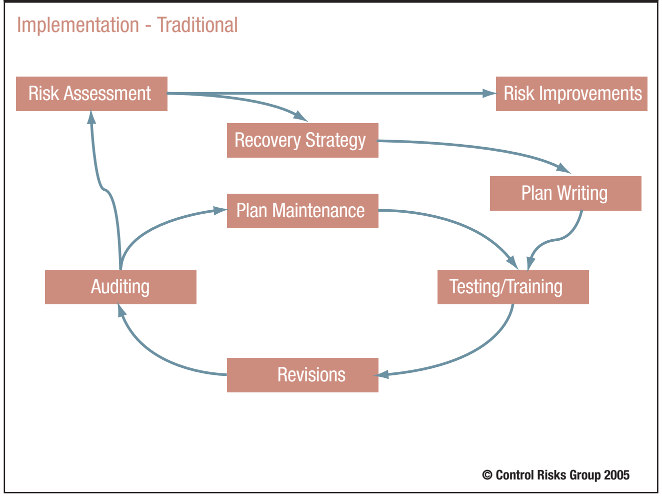
Figure 1: The 'Old' Approach to Risk Management programmes



- Catastrophic events or accidents (e.g. fatalities, workplace safety, technical failures, ecological disasters, product recalls).

The above are considered 'critical issues' and when one or more of them are triggered, the monitoring begins. Assessment is made of the extent of the crisis within the company, geographically and in terms of media coverage. If the impact of the crisis on the reputation of the company, or on its operations, is far reaching then the monitoring moves to the next phase.

In the second stage, the quality of a company's business continuity is assessed. How well it informs the public, acknowledges responsibility, provides relief measures, involves relevant stakeholders and develops solutions are the areas where sustainable companies will excel. Failure to do so on any one or a series of incidents may lead the assessment committee to propose to the DJSI Design Committee to exclude the organisation from the DJSI family.

DON'T LET IT HAPPEN TO YOU The implications of what the DJSI is trying to achieve are clearly significant.

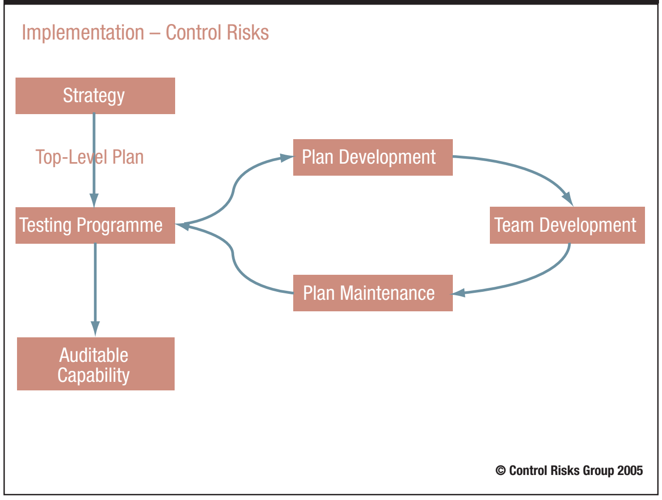
A heart and mind battle is being fought with organisations to shelve the ad-hoc, knee-jerk approaches of the past and develop mature, comprehensive and sophisticated approaches to Crisis Management, Business Continuity and Issue Management.

However, if your heart and mind is won and you wish to gain a listing, or indeed, if you are already listed but have questions marks over the reality within your organisation, then how can you prevent an ignominious expulsion?

Control Risks' clients have been increasingly moving away from the old, tried and not very well tested approach of having someone down the corporate pecking-order being given the impossible task of engaging the entire organisation in a process it has little desire to take part in.

Typically, programmes would follow the path set out in *Figure 1,* involving many stages, requiring much positioning, continual buy-in and re-energising. This would usually involve consultants with Microsoft Word templates on which they hang whistles and bells to crow-bar your organisation into their perceived wisdom. Then this is touted around the organisation to gain more buy-in before the programme struggles in a test for which there is little appetite and even less buy-in.

Figure 2: The Control Risks Approach to Risk Management programmes



To end this eternal cycle, you need a different approach that actively engages the organisation at a senior level from the outset. Getting the decision-makers to understand the issues, take ownership of them and have an awareness of what their roles and responsibilities are.

By turning the 'old' process on its head and commencing with a test or exercise gives you a dynamic start point. Your 'as-is' being clearly understood by all and the necessary steps required to move the organisation forward being clear, measurable, assigned and accounted for – the main tenets of the DJSI philosophy.

It is also a highly cost-effective approach when mandates are issued directly from the top and transcended across the organisation. Ownership will be set at the right level, monitoring and awareness is high as this is now a corporate-wide issue and, significantly, budgets can more easily be obtained to put an appropriate process in place.

INVESTMENT SIGNIFICANCE The DJSI is trying to grasp the main concepts of best practice and have identified the main themes of legislation and regulation that is being put into place around the world's main trading centres.

The themes of ownership, process, monitoring and transparency will be familiar to all of you who have been impacted by corporate governance or risk management legislation and regulation. Any major organisation increasingly needs to be aligning itself with issues around sustainability because it hits the bottom line. Organisations need to be able to show to the world the quality of your management and the aspirations of your organisation – something today's global market demands to know.

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