Sustainability & Compliance *Trends*

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Five trends shaping the future

Deloitte.

Creating value through innovative approaches

The sustainability and compliance agenda is constantly moving forward. Companies are finding new innovative ways of addressing sustainability challenges. New compliance issues emerge. Stakeholders voice a wide range of demands and requirements. In this volume of Sustainability & Compliance Trends, we highlight five trends that focus on creating value either through new innovative approaches or through understanding how to navigate in an increasingly complex compliance agenda.

Many companies are grappling with how to measure and demonstrate that they are creating 'Shared Value'. The first trend suggests how to document, understand and communicate impact by using socio-economic impact assessment – an approach that is gaining ground among companies as a gauge of value creation for investors, customers, governments and other stakeholders. Another way of creating value and engaging key stakeholders is through partnerships. By creating strategic partnerships with civil society organizations, companies that do it well gain great benefits in customer and employee engagement.

Navigating compliance issues is demanding evermore attention from management and compliance functions alike. In this volume, we therefore also focus on how to create value by managing and mitigating risk when it comes to labour rights, human rights and corruption.

In this edition, we take a Nordic perspective, reflecting our integration across the Nordic region when it comes to deliver sustainability and compliance services. Therefore, we have also added two market perspectives from Finland and Iceland respectively.

Enjoy!
Anne Mette Christiansen

Sustainability & Compliance *Trends*

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Editorial staff:
Anne Mette Christiansen
Helena Barton
Kristin Parello-Plesner
Mari Espelid Kristensen
Riikka Poukka
Sami Koskela
Sif Einarsdottir

Graphical design: O&O

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Trend #1:

Are you measuring your socio-economic impact? You should.

The practice of measuring the socio-economic impact of business is about to become a powerful tool for tackling global challenges. Proving a positive socio-economic impact holds great promise for business profits. But it is also important for helping societies transition towards more sustainable economic development that benefits the communities where companies operate.

By Thomas Westergaard-Kabelmann

Thomas Westergaard-Kabelmann is specialized in socio-economic impact assessments of corporate performance, documenting how companies' performances can and do create net benefits for economies and societies. During his consulting carrier, he has specialized in impact assessments, feasibility studies, policy evaluations and audits of policies and investments directed towards trade, markets and international transport.

The mutual dependency of business, government and civil society becomes increasingly clear as social and environmental challenges grow, whether locally or globally. Many companies create significant socio-economic impact in the communities where they operate, and they depend on authorities to create a business-enabling environment.

There are numerous opportunities for those businesses who can document their positive socio-economic impacts. Measuring socio-economic impact is a powerful way to show policy-makers how business activities contribute to public policy goals and local development. But it can also help companies achieve a better understanding of the impacts of their products and services in local markets, including the needs, aspirations, resources, and incentives of their customers.

Paired with a company's financial returns, measuring socio-economic impact is likely to raise investor interest, but only few companies know how to measure their impacts and capitalize on the results.

Going too narrow and too shallow misses the mark. At a simple level, companies generate socio-economic impacts in two ways: Initially, when they produce their products and services, and then when their products and services are put into use. However, traditional impact studies are heavily focused on the first part, which does not provide the full picture of the company's potential. Likewise, when discussing their impacts, companies tend to be too narrow in their assessment by restricting the focus to employment impact or tax payments only. In so doing, companies risk underestimating their tangible positive contribution. Also if the company fails to create accurate documentation about its impact, it risks jeopardizing its reputation, eroding stakeholder trust and eventually suffering on the bottom line.

Measuring socio-economic impact is a powerful way to show policy-makers how business activities contribute to public policy goals and local development

Documentation of socio-economic impact and shared value creation is all about quantifying the impacts from both production and from the use of products and services. In this way, you get a more complete understanding of a company's impact, even though the individual study may seek to address a specific challenge, such as the impact of a new decision, a new product or a single event.

Where to start?

There are many ways to measure socio-economic impact. The right methodology depends on the sector and the business. However, a socio-economic impact study should ideally be based on a comprehensive cost-benefit framework scoped on key business matters: for example, how production takes place, which technological specifications apply, what the upstream / downstream efficiencies are, and how products and services affect primary stakeholders.

Documenting companies' socio-economic impact can help improve the business-enabling environment, maintain a license to operate, accelerate product and service innovation, strengthen value chains and enhance employee and consumer loyalty. It can generate a strong connectivity to the socio-economic challenges facing local markets where you operate. Being part of the solution is simply the best argument for staying in business.

Five steps to accelerate socio-economic impact measurement in your business

1 **Set boundaries:** Develop a cost benefit framework scoped on key business matters. Don't cherry pick. Companies who only pick the low-hanging fruits and try to avoid harder issues risk that their analysis will backfire. Local problems may not all be completely addressed by a company; be transparent about the limits of your company's impact.

2 **Measure direct and indirect impacts:** Take a holistic view of your impact and go beyond the traditional input-output analysis by integrating the socio-economic measurements into business performance management and reporting. The assessment will help clarify if the company's products and services provide any additionality to industry peers, which in turn create stronger arguments for value-added price.

3 **Assess contribution to development:** Find new business opportunities through a better understanding of products and service impacts, in addition to financial performance impact measurements. Use the most relevant indicators to measure socio-economic performance in operating markets.

4 **Prioritize management response:** Decide which internal stakeholders should take responsibility for measuring your company's socio-economic impact. Ideally, and as a minimum, engage the sustainability / CSR department, investor relations and CFO.

5 **Communicate documented results to stakeholders:** If you want to conduct an impact assessment, you must be ready to address the critical issues. If you know you have a negative impact, measuring socio-economic impact will enable you to better manage critical issues. As a company, you stand behind your data, and there is always a risk that third parties challenge the accuracy of your impact assessment. If needed, acknowledge that there might be blind spots left exposed. Engage in dialogue with those who challenge your assessment.

Deloitte and QBIS Consulting have joined forces to bring this new understanding to companies. We help companies scope the study of their social, environmental and economic impact, provide accurate data that can serve as decision making criteria and form part of strategy design by creating a clear link from analytical benefits to general value drivers. Finally we assist in translating the key findings into compelling stakeholder communication material.

Trend #2:

Seeking Value through Responsible Procurement

Mention 'supply chain risk' and many think of overworked and underpaid workers toiling away in factories far away, unable to claim their basic labour rights. But the risk of poor working conditions among suppliers also exists right here in the Nordic countries.

By Helena Barton

Helena Barton has more than 15 years' experience in global sustainability and is the Chairman of the Global Reporting Initiative's Stakeholder Council and member of the ACCA Global Forum for Sustainability. She specialises in risk management, reporting and assurance. Helena conducts supply chain audits and advises the public and private sector on responsible procurement.

As part of securing a resilient and reliable supply chain, Responsible Procurement is gaining ground in both the private and the public sector. The objective is to create long-lasting relationships with suppliers who – by adhering to local or international standards for responsible business practice – provide goods and services in a cost-efficient way that minimises the risk of legal violations, disruptions to sourcing and delivery, and damage to the buyer's image and reputation.

Current surveyed practices of 133 large multinational companies across 24 countries point towards a 40 % increase in responsible procurement activity over the last ten years. And 93 % of procurement organisations recognise sustainable procurement as a critical or important objective for their business, with many seeking to integrate CSR / responsible business criteria right from the start of the sourcing process. The benefits currently being measured are cost reduction (48%), minimized supplier risk (41%) and environmental benefits (35%)[1].

Ensuring responsible and compliant behaviour among suppliers is becoming increasingly pressing close to home in the Nordic countries. Labour rights issues, terms of employment and wages are frequently raised in the media, by concerned politicians, unions, local citizens and others; they seek to uphold Nordic society's comprehensive and high labour standards, which at times appear to be under threat from suppliers who directly or indirectly may undermine such standards.

In recent years, the construction industry in particular has been subject to criticism for a range of labour practices.

This means that whenever a major construction project is initiated without sufficient due diligence of the suppliers, there is a risk of engaging a supplier who operates in breach of legal and/or other requirements, sometimes knowingly, sometimes not. Either way, the consequences can become costly for everyone involved, when a construction project is put on hold due to a labour dispute, avoidable accidents or other disruption to operations.

Public and private sector organisations increasingly include a separate clause in their procurement contracts which states that suppliers must comply with e.g. specific conventions of the International Labour Organisation, the principles of the UN Global Compact, or an applicable local collective bargaining agreement.

Unfortunately, such a clause does not in itself provide much assurance that the supplier will follow the requirements. The reference may be too vague. Or not fully understood.

Few suppliers will look up the specifics of an ILO convention, let alone know how it translates into actual requirements for them to ensure certain labour conditions and maintain supporting documentation. Collective bargaining agreements in the Nordic countries usually comprise a long list of different terms and conditions for which the supplier's management team is responsible. Sometimes even in a language foreign to the supplier.

While some suppliers may deliberately seek to evade their legal and contractual obligations to uphold the labour rights of their workers, others are simply not prepared;

1) HEC/EcoVadis 2013 – 6th Sustainable Procurement Barometer

they have not fully familiarized themselves with their obligations, despite signing the contract with the buyer. Applying a Responsible Procurement approach involves, among other things, that the buyer from the outset of the procurement process provides upfront and clear-cut communication of the requirements for labour standards among a supplier's workforce. The information should plainly explain what is required of a supplier and what kind of compliance monitoring they might be subject to before or during the relationship.

This is often overlooked by buyers: They do not always specify in a contract how they will monitor compliance of labour standards (e.g. through inspections, audits or other verification activities), how they will handle non-compliances and what consequences this might have for the suppliers.

When both parties know what to expect of each other and agree to abide by common rules, a more resilient and reliable relationship is established between a buyer and a supplier.

Five steps to setting clear expectations with suppliers

1. **Be clear on the rules:** Integrate criteria for labour standards into the prequalification phase of a tender. Shortlist suppliers who are able to meet the criteria and engage in competitive dialogue and evaluation in the contract negotiating phase. This provides an opportunity for each party to agree on reasonable expectations, tolerance criteria, as well as terms for possible corrective actions.

2. **Break down complexity**: Provide comprehensible and practical information to suppliers. Break down complex legal paragraphs and 'translate' global labour principles into a clear and manageable set of rules.

3. **Engage important stakeholders:** Ensure that the contractual expectations are addressed in a meeting with suppliers – and sometimes other relevant parties, such as trade union representatives – to ensure that they understand what is expected of them. Help those who want to comply, but do not know how.

4. **Perform targeted and effective controls:** Build a database where suppliers are segmented based on a set of risk criteria, so that you can focus your monitoring on high-risk suppliers. To ensure compliance with Responsible Procurement criteria, a range of suppliers may need to be regularly screened, monitored and audited for compliance.

5. **Emergency preparedness:** Develop a response system with clear ownership of issues and lines of communication and decisionmaking, for when you might need it.

93 % of procurement organisations recognise sustainable procurement as a critical or important objective for their business.

HEC/EcoVadis 2013 – 6th Sustainable Procurement Barometer

Market perspectives from Finland

In Finland, the most significant shift in Corporate Social Responsibility (CSR) over the last five years is that it has developed into a mainstream management discipline.

CSR has gone mainstream

This does not mean that CSR has become strategic at all levels and in all organizations – there is still plenty of room for improvement in terms of finding the most material, business critical sustainability issues.

It is partly due to pressure from B2B clients, where supply chain management is creating a positive CSR 'domino effect'

However, all major corporations now have full-time CSR staff managing the implementation of a CSR strategy, reporting on sustainability topics, and using Key Performance Indicators to track the success of their efforts.

It is partly due to pressure from B2B clients, where supply chain management is creating a positive CSR 'domino effect'. It is also due to present and future employees, NGOs, and investors (both mainstream and Socially Responsible Investment) becoming increasingly active and demanding around corporate sustainability.

Furthermore, regulatory pressure has accelerated over the past few years; for example, the Finnish government has initiated a national CSR Commitment, and a National Action Plan on the UN Guiding Principles on Human Rights has been launched. The EU-directive on non-financial reporting will no doubt bring regulatory requirements on CSR closer than ever to Finnish businesses.

Last but not least, B2C customers have begun to show growing awareness of opportunities around sustainable consumption. Active interest, however, is still only emerging in the market.

A drawback is that the 'hot topics' of CSR tend to change faster than the actual issues can be addressed.

Consequently, the agenda always seems to be expanding, which eventually risks blurring the picture of what is relevant and material for companies to focus on.

During the last three years, sustainability perspectives have become more integrated into established corporate functions, such as risk management, reporting and operational management systems.

Overall, the focus is shifting from risk to opportunity – to showing the market what the sustainability perspective represents in different companies. This creates a great incentive for telling the sustainability story in an interesting and concrete way through communications, marketing and sales. Moreover, sustainability thinking is increasingly used as a source of innovation and inspiration – both in the home market and abroad.

Five key topics defining the CSR-agenda in Finland

1

Supply chain management – improving current practices and focusing on human rights:
Companies are taking their sustainable supply chain practices to the next level by reviewing and improving current practices and by paying particular attention to human rights issues.

2

Reporting – balancing between materiality and a growing array of frameworks:
The Global Reporting Initiative (GRI) has a strong footing in Finland as the most widely adopted framework for sustainability reporting. The G4 version of the standard and its focus on materiality is gaining wide interest in Finland, with most major reporters getting ready for their first or second 'G4 reports'. Yet, today's array of reporting frameworks such as Integrated Reporting, the EU Directive on non-financial reporting, the UN Global Compact Communication on Progress and others may puzzle even the hard-core reporter.

3

Compliance – strengthening controls over grey areas through anti-corruption and tax transparency measures: Compliance issues, particularly stronger roll-out and follow-up mechanisms for ethical guidelines and greater tax transparency, are high on the corporate agenda, not least due to the Finnish media's persistent attention to the topics.

4

Customer engagement – how to find the 'sustainability sweet spot':
Sustainable consumption choices interest both individuals and companies, as both look for ways to connect in the marketplace. Attention is growing, but the position of being the game changer is still up for grabs.

5

Impact – investing for the long-term through holistic, sustainability thinking:
A focus on impact, i.e. the unique positive and negative contribution of an entity, is steadily gaining attention from public and private decision-makers as well as from investors. As resources get scarcer, decisions must be based on, and justified by, a holistic analysis that takes into account not only economic but also ecological and social impacts. Interestingly, Finland's trendy start-up scene is actively engaging with this topic.

Trend #3:

Corporate Humanitarian Partnerships: the real match

Businesses face a growing expectation from consumers and employees to do more for society and address global challenges through their activities. Civil society organizations encounter an increasingly complex humanitarian reality through their activities, requiring access to new technology, products and service solutions. Corporate humanitarian partnerships are providing a new shared business case.

By Bahare Haghshenas

Bahare Haghshenas specialises in partnerships between the business sector and NGOs, strategic consumer involvement and CSR innovation. Bahare is highly experienced in stakeholder dialogue, market analyses,process innovation and facilitation. She has more than 10 years' experience in developing and launching concepts in markets in Europe, North America and Africa. She is the former Vice-President of the Swedish Red Cross and from 2006-2010 was a member of the Delegation for Human Rights appointed by the Swedish Government.

Global humanitarian challenges are changing the operational agendas for governments, businesses and civil society organizations (CSOs). Neither party can singlehandedly solve today's complex challenges, from climate change, pollution and resource scarcity to armed conflict, migration or poverty.

The practice of partnerships between businesses and CSO's is evolving in important ways. Companies have moved away from philanthropy and one-off activities and towards strategic partnerships with direct business benefits, leveraging their core competencies and addressing social and environmental challenges in their value chain, such as poor human rights standards.

Deloitte's Global Millennial Survey[1] found that 68 % of Millennials expect businesses to do more than they are already doing to address social problems and engage in solving global challenges.

A successful partnership can open new opportunities for business; this may include offering access to new markets in developing countries, increasing the understanding of local conditions and enhancing legitimacy in local communities.

Long-term collaboration with CSOs provides an opportunity to engage with consumers in a common cause that helps create consumer loyalty and product favour. Likewise, successful partnerships with businesses can create huge opportunities for CSOs that face a growing number of complex humanitarian needs and shrinking budgets. CSOs partnering with businesses can benefit from access to innovative technology solutions and products, access to new groups of volunteers, as well as services and infrastructure to support their humanitarian activities.

Despite the obvious benefits of partnerships, businesses and CSOs both experience challenges in making them come to life

But despite the obvious benefits of partnerships, businesses and CSOs both experience challenges in making them come to life. A recent study[2] shows, that 84 % of businesses and 96 % of CSOs expect partnerships to become increasingly important to their organisations over the next three years. Correspondingly, 65 % of business and 86 % of CSOs expect their investments in partnerships to increase. However, only 1 % of current partnerships in Denmark create shared value[3]. How can this be improved in order to meet the objective?

From pitfall to promise

Both partners risk wasting their time, if they do not commit to developing a proper strategy of engagement

1) www.deloitte.com/MillennialSurvey 2) C&E Corporate-NGO Partnerships Barometer 2013, www.candeadvisory.com/barometer 3) Neergaard, P.Crone Jensen, E& Thusgaard Pedersen, J 2009. 'Partnerskaber mellem virksomheder og frivillige organisationer'.

and shared value objectives. It requires a fundamentally new approach from both business and CSO to move away from donations and marketing towards working with specific joint challenges.

Businesses and CSOs are by nature different, and their historical relationship has been infused by conflict and mistrust. Different cultures, organisational structures, governance and working procedures can put significant strain on the relationship, as can different approaches to the objectives and motivation for a partnership.

Despite these obstacles, future partnerships will have to find ways to deepen collaboration and integration in order to avoid the pitfalls and realise their promise. Businesses and CSOs should engage in dialogue to solve shared challenges or realize common opportunities where value creation to the business equals the creation of value to the CSO. This requires matching expertise and assets (rather than just money), defining the timescale of the project, and clearly articulating the social or environmental goals that need to be met.

Five steps to creating shared value in Corporate Humanitarian Partnerships

1

Think outside the box:
Applying a 'business as usual' approach will not create shared value in the partnership. Partnerships requires a common approach, framework, objectives and way of operation. Not 'my way' or 'your way' but 'our way'.

2

Involve local stakeholders:
Involve the local stakeholders and the implementing organisation already in the project design phase. This will minimize challenges in the implementation phase, align expectations and match the project plan to the local reality.

3

Agree on resources:
Partnerships often fail because of misaligned expectations. Projects need to be carefully planned from the outset and monitored as the project progresses. Be clear about which different resources, expertise, knowledge, time and commitment are brought into the partnership and with what purpose.

4

Agree on timelines:
Avoid the mismatch between what CSOs and businesses typically consider a long-term commitment. In general, CSOs have a more long-term agenda than companies do. Businesses want to see a return on investment fast. This can be difficult to achieve and creates a need for both CSOs and companies to be realistic about timeframes and results.

5

Measure impacts:
Businesses and CSOs alike will want credible evidence that the different types of resources they have provided have made a clearly identifiable and measureable impact. In any project planning there needs to be a methodology with tangible KPIs for assessing impacts and outcomes.

Source: C&E Corporate-NGO Partnerships Barometer 2013, www.candeadvisory.com/barometer

Market perspectives from Iceland

The global financial crisis and subsequent collapse of the Icelandic economy in 2008 was a wake-up call for Icelandic businesses. The result has been an emerging focus on longterm thinking, corporate social responsibility (CSR) and sustainability.

Emerging from a Crisis with Increased Responsibility

The growing activity around sustainability and CSR in Iceland is mainly business-driven, since Icelandic legislation still lags somewhat behind other Nordic countries.

Increasingly, businesses recognise the commercial and reputational benefits of adopting a long-term strategy that positions their business activities as a response to broader social and environmental needs.

More than anything, 'trustworthiness' is the key message that Icelandic companies want to send to their stakeholders, reassuring them that they are in business for the long-term; credibility has become more central than ever to the development of corporate policies and initiatives that aim to underpin a responsible business.

At the same time, Icelandic companies are experiencing increased pressure from foreign customers, suppliers and vendors to comply with international standards and CSR principles.

The Icelandic Centre for Corporate Social Responsibility, Festa, has organized different events to bring CSR staff and sustainability activities together and raise media attention and public awareness about the issues.

According to recent reviews of public and local enterprises, Icelandic companies are increasingly adopting key performance indicators to monitor their CSR performance and communicating this in a report. Recycling of waste and helping youngsters to a healthier lifestyle through sponsorships of local sports clubs are some of the more popular initiatives.

The high end of the Icelandic fashion sector is also beginning to use a CSR-perspective as a way to differentiate itself positively in the local clothing market. Placing emphasis on the durability and quality of clothing materials as well as emphasizing good relationships to responsible manufacturers create strong arguments for the value-added price.

From Risky and Controversial to Responsible and Credible

A common denominator for those Icelandic companies that are showing leadership in sustainability is that they have either had a risky business history after the financial collapse in Iceland, or they have been operating in a controversial industry where questions of trust are often raised.

CSR as a management approach has given those companies the opportunity to regain credibility and promote responsible leadership as a core part of their corporate culture.

Icelandic companies with a longer history of implementing sustainability principles into their business thinking now increasingly integrate CSR objectives with business strategy. This means that a growing number of resources are being dedicated to implement sustainability principles into the business, and issues are dealt with more systematically and at a higher level in the organisation.

CSR as a management approach is expected to gain more attention from enterprises over the next few years, as Iceland's core industries – such as the fishing industry and the tourist industry – start building sustainability principles into their company policies and core activities. Their efforts will also generate more public interest, and companies are expected to respond with more comprehensive and transparent reporting on their sustainability performance and outlook.

Although awareness in Iceland is growing, it is still limited to certain progressive parts of the business community, and adoption of sustainability management and reporting practices are generally considered to be a few years behind the other Nordic countries. However, over the coming years, addressing social and environmental challenges while driving business performance will become the norm.

Icelanders like to consider themselves at the front line of progressive trends, and despite some catching up to do, it would not be surprising, if CSR soon becomes standard business practice.

Five key drivers of CSR in Iceland

1. After the economic collapse in 2008, Icelandic companies needed to demonstrate that they were trustworthy and would stay in business for the longterm. Integrating sustainability thinking into their business approach has helped companies manage their risks and communicate this to a wide stakeholder audience.

2. Icelandic companies supplying foreign businesses increasingly need to comply with international standards and principles for CSR to maintain and grow their business.

3. Although not required by law, Icelandic companies are beginning to report on their CSR performance. Numbers are still very low, but a few companies are showing the way with reports that use international frameworks such as the Global Reporting Initiative (GRI) or UN Global Compact.

4. The Icelandic Centre for Corporate Social Responsibility, Festa, is experiencing significant growth in membership, thanks to their active awareness-raising. The Centre was founded in 2011 by six progressive Icelandic enterprises. By 2014, membership stood at 44 companies[1].

5. In a small economy, good cases have an impact: some controversial companies have managed to turn their reputation around by adopting sustainability thinking and communicating their performance. This has set a positive example and inspired other companies to follow suit.

1) http://festasamfelagsabyrgd.is/about-us

Trend #4:

Navigating the murky waters of corruption

Increased political attention and growing business risks see many Nordic companies gradually improve their anti-corruption strategies and compliance programmes.

By Kim Sparre

Kim Sparre has more than 14 years of experience leading corporate investigations and forensic engagements in general. His primary work areas include investigations for private and public organizations facing sensitive and often wide-ranging challenges in relation to bribery and corruption, corporate fraud, employee misconduct and various compliance issues, particularly in emerging markets and jurisdictions. Within Deloitte, Kim has led numerous large-scale international investigations and compliance audits in many different jurisdictions world wide.

The World Bank estimates that worldwide corruption hits 1 trillion USD each year[1]. It is the main barrier to sustainable economic, political and social development. Corruption decreases efficiency and increases inequality in societies. And it adds to the cost of doing business; bribes increase transaction costs, and corruption brings with it the risk of prosecution, severe penalties, blacklisting and reputational damage.

Furthermore, engaging in bribery creates uncertainty for business, because there may always be a competitor willing to offer a higher bribe to win business. In fact, the World Economic Forum estimates that corruption increases the cost of doing business by up to 10% on average[2].

Outsourcing and increased globalization are increasingly exposing Nordic companies to significant and complex risks. Legislation in different markets is complicated. The division of responsibility between suppliers and subsuppliers has become ever more blurred. Several damaging cases demonstrate that neglecting corruption risk can be a very costly strategy for a business.

However, by the time most companies realize they actually need an anti-corruption programme, they are already in a tight spot.

Larger businesses have by now adopted some kind of anti-corruption and compliance policy, but these are often insufficient and rarely receive the appropriate attention from top management or the board.

1) www.worldbank.org 2) www.weforum.org/

Staying on the surface of a potential corruption risk is a common pitfall and creates a false sense of security

In the Deloitte Nordic Compliance Survey 2014, 94 % of legal officers in surveyed companies responded that they believe their company behaves ethically. Yet many companies still struggle to report on the impact of their corruption policy or compliance programme. Staying on the surface of a potential corruption risk is a common pitfall and creates a false sense of security.

Anti-corruption measures are a necessary investment. Frontrunner companies share the approach that taking a stand on corruption is not seen so much as a cost but instead as an investment that helps the company successfully implement its strategy.

Doing business is a complex interaction of policies, procedures, systems and people. Regardless of where a company operates, it has to deal with the fact that employees face dilemmas, are culturally different, have personal incentives and sometimes make wrong decisions.

While focus is often on top management, most companies overlook the fact that the biggest risk exposure is at mid-management level and below. Companies also often ignore that corruption can occur at all stages: gifts, return commissioning, nepotism, fraud or bribery, large or small. All of which frequently have destructive consequences for the company and individuals. Implementing an anti-corruption programme mitigates the risk and can help give a competitive advantage in a complex market place.

An anti-corruption programme connected to a policy for transparency and accountability helps secure the 'health' and reliability of a company. It provides transparency towards authorities and business partners. By applying a proactive approach a company avoids ad hoc solutions and silo-thinking. It becomes more agile in its response to dilemmas and risks.

An effective start is to establish a long-term business strategy in the markets where the company operates, create clear incentives for those who comply, and be firm about what is unacceptable business behavior. This means getting organized internally, allocating the resources necessary to establish an appropriate governance structure, communicating risk and dilemmas, training employees, and measuring the impact.

Five steps to start or revise your anti-corruption program:

1

Assess:
What are the risk and needs of the company? An indepth assessment of procedures, policies and standards paired with an analysis of external risks and legal and ethical requirements will create a full overview for company management to decide which course to take and with what resources.

2

Prevent:
Have we done enough? Run through all procedures, polices and business units to establish whether procedures are appropriate in scope and depth and sufficiently robust. Do compliance materials and training cover all critical areas in the company? Are risk areas regularly monitored and followed up on?

3

Detect:
How good is our monitoring? Evaluate the effects of governance and procedures. Evaluate employees' level of knowledge and the quality of monitoring processes, such as internal audits, follow-ups and controls. Detection is important in order to establish, if resources are spent wisely. Develop the KPIs, measure and evaluate behavioral change.

4

Respond:
How good is our risk management? Does the company have a sufficient risk management programme in place? Are adequate procedures in place for handling incidents, information flows and conducting investigations? Can the company provide the right analysis and materials for authorities and partners, when requested to do so?

5

Integrate:
Which results can be achieved? Allocate resources from the start. Don't leave compliance and anti-corruption to whoever has excess energy in the organisation. Make sure that the responsible officer has access to executive management.

Deloitte has developed a comprehensive anti-corruption programme which helps business troubleshoot corruption and fraud risk. The programme is based on more than a decade of experience helping companies with conducting internal audits, complying with legislation and standards and developing risk mitigation programmes.

Trend #5:

How to safeguard the human rights programmes of your business

Corporate human rights issues continue to be a complicated topic, slowly moving up the corporate agenda. Nordic businesses are stepping up human rights compliance programmes for managing risks. But many overlook the critical activity of establishing a suitable complaints mechanism.

By Thomas Trier Hansen

Thomas has 15 years of professional experience with Human Rights related issues nationally as well as internationally from working in more than 25 countries in Latin America; Africa; Europe and Asia, including almost six years with the Danish Institute for Human Rights at its international department. Thomas' is among other things experienced in Human Rights assessments, reviews and appraisals of Human Rights programmes supported by government.

Since the launch of the UN Guiding Principles for Business and Human Rights in 2011, businesses are increasingly being held responsible – sometimes directly, sometimes indirectly – for addressing human rights risks and solving related issues in their supply chain.

The international focus has shifted from companies adopting basic human rights standards to implementing the Guiding Principles and delivering results.

Denmark and Finland have recently developed National Action Plans on Business and Human Rights, both of which underline the need for improved access to remedy. A public institution to handle complaints over business conduct has been in place in Denmark since 2012, and it is currently handling its first cases. Similar bodies exist in other Nordic Countries.

This shows how Nordic companies are continuously challenged to demonstrate steps taken to address and mitigate human rights risks. Including a complaints mechanism in the corporate human rights programme is a key tool to reduce human rights risk and related management costs.

Although not all issues or risks can be resolved by a complaints mechanism, it is important that a company has the right mechanisms and procedures in place to resolve potential cases appropriately. For companies operating in Nordic countries, a complaints mechanism could be a prerequisite for ventures with public partner contractors. It could provide a critical risk alert mechanism and also positively affect internal and external stakeholders' trust in the company.

Nordic companies are continuously challenged to demonstrate steps taken to address and mitigate human rights risks

The sooner a company can solve a human rights issue that appears in its operational sphere, the more likely it is to reduce the costs of a case and prevent more serious incidents. Furthermore, a successful complaints mechanism can reduce the risk of complaints being submitted to other public complaint mechanisms, such as consumer boards, data protection agencies, equality boards, or the press.

Whistleblower hotlines may miss the point

Lately, an increasing number of Danish companies have developed whistleblower hotlines in order to provide access to remedy. However, these might not deliver the desired results when it comes to solving human rights issues. Generally, whistleblower hotlines have a different scope and are managed by officers without any human rights or CSR experience, or they have a specific focus such as compliance with sector-specific standards.

This often leaves affected persons uncertain of the mechanism's relevance, including their rights to data and privacy protection. The risk is that if the mechanism remains inaccessible for the target group, the business is left unaware of serious issues that will eventually 'break' in the public and set off resource-intensive processes.

To avoid such pitfalls, companies need to seek out the opportunities. A complaints mechanism has multiple functions in a human rights compliance programme: It provides a platform for feedback, works as an internal and external remedy process for stakeholders, and potentially uncovers organisational gaps and serious incidents that put the company at risk.

Five steps to improve your complaints mechanism:

1 **Map your existing system to discover gaps and overlaps:**
Duplication of a complaints mechanism is a risk, since the company may have a number of different mechanisms without realizing there are unnecessary overlaps.

2 **Consult with internal and external stakeholder about priorities**:
Disputes often arise based on pre-existing mistrust, which makes it hard to work together. Proposing a jointly-created complaints mechanism may in itself help build trust or be a prerequisite to addressing a dispute.

3 **Design a complaints system based on demand:**
Analyse barriers in the system that make the mechanism inaccessible for the target group. Set clear expectations and guidelines that can assist in designing appropriate follow-up actions.

4 **Communicate the process internally and externally:**
Remember to communicate about the implementation and results of the system. Address potential dilemmas, e.g. how to balance transparency with the interests of the company and confidential information, and have a clear plan for how to protect the complainant against acts of retaliation.

5 **Regularly evaluate the system against defined indicators:**
Continue to revise and evaluate the system's efficiency. Implement the results and communicate them annually.

What is a complaints mechanism?

The purpose of a business-based complaints mechanism is to address specific cases and disputes at the company level, e.g. dangerous working conditions, child labour etc. Solving such cases can be seen as part of a more comprehensive organisational or supply chain management approach based on a risk and conflict management tool that helps companies identify and act on violations of international principles and norms associated with their business activities.

Contact Deloitte

Denmark:
Anne Mette Christiansen - *amchristians@deloitte.dk*
Helena Barton - *hbarton@deloitte.dk*
Peter Brock Madsen - *petermadsen@deloitte.dk*
Anders Morand - *amorand@deloitte.dk*

Norway:
Helene Bamrud - *hbamrud@deloitte.no*
Frank Dahl - *fdahl@deloitte.no*
Albert Wolders - *awolders@deloitte.no*

Sweden:
Didrik Roos - *diroos@deloitte.se*
Lars Ek - *lek@deloitte.se*

Finland:
Lasse Ingstrøm - *lasse.Ingstrom@deloitte.fi*
Sami Koskela - *sami.Koskela@deloitte.fi*
Riikka Poukka - *riikka.Poukka@deloitte.fi*

Iceland:
Sif Einarsdottir - *sif.Einarsdottir@deloitte.is*
Ingunn Olafsdottir - *ingunn.Olafsdottir@deloitte.is*