



Summary Report of the Private Event

*Stakeholder Engagement:
Benefits for Investors, Investees and Society*

Friday, 27 January 2012
Davos / Switzerland

Co-hosted and supported by:

L'ORÉAL

Background

Since 2008, Fondation Guilé hosts jointly with the UN Global Compact and the Federal Department of Foreign Affairs at the World Economic Forum Annual Meeting in Davos consecutive private events. These dialogues bringing together the Secretary General of the UN, Swiss Foreign Councillor and C-suite representatives from business that are demonstrating CSR leadership aim at discussing ways to further strengthen the United Nations Global Compact and to ensure the initiative's continued relevance as the leading corporate citizenship movement. At the occasion of 5th anniversary of the foundation's engagement it was decided to organize together with L'Oréal as co-host a breakfast event that offered the opportunity to discuss experiences and expectations in the context of the UN Global Compact as well as responsible, long-term oriented investments in a small circle of company representatives and other interested stakeholders.

Enabling corporate dialogue with the United Nations: 5th anniversary of Guilé engagement in Davos

Régis Burrus, Chairman of Fondation Guilé, opened the breakfast event by briefly explaining the mission and engagement strategy of the foundation. He stressed that Guilé intends to encourage and support decision makers to adhere to responsible business practices and in particular to support Global Compact signatory companies to generate growth while creating value for shareholders and other strategic stakeholders. Mr. Burrus explained that in order to achieve its mission, the foundation has developed several instruments and launched a number of initiatives all aimed at promoting sustainability leadership. With the COP-assessment methodology that Fondation Guilé has created, the presently more than 90 constituents of the two Guilé Funds - the Guilé European Engagement Fund and the Guilé Emerging Market Engagement Fund - are systematically evaluated

"Today the main mission of Fondation Guilé is to assist the constituents of the two Guilé funds in their endeavor to live-up to the ten Global Compact principles thus creating value for both, the company and its stakeholders."



regarding their progress in implementing the ten UN Global Compact (UNGC) principles. Based on those assessments, Fondation Guilé – on behalf of the investors - conducts constructive dialogues with the portfolio companies. The engagement approach – which Régis Burrus calls “mirroring” – has positive effects in two ways: It provides the portfolio companies a valuable feedback on how external stakeholders perceive their reporting on the UNGC commitment and CSR-related issues. At the same time it gives investors a better understanding of portfolio companies and their stakeholders' sustainability business cases, thus creating more value for the shareholders. In 2011, more than 75 of those interactions with portfolio companies had been performed by the Guilé Engagement Team.

Régis Burrus explained that, with the new format of a breakfast meeting, Fondation Guilé wants to preserve its DNA in bringing value and content for companies, in particular to UNGC signatories, regarding the implementation of the ten principles this by facilitating the exchange of experiences and ideas among the participants. He further highlighted that Fondation Guilé has the ambition to extend its assessments to interested UNGC signatories, other than the constituents of the two Guilé funds, and become thereby a “point of reference”.

Guilé Engagement Funds: Creating a double dividend

Melchior de Muralt, Partner of de Pury Pictet Turretini that manages the two Guilé Engagement Funds, stated that the claim “creating shared value” is exactly why they are collaborating with Fondation Guilé. However, as Melchior de Muralt explained, the work is just at the beginning. He made a point that the framework of the ten UNGC principles is the perfect way to engage with companies. At the same time, he brought into question why only very few analysts are looking carefully into sustainability reports and related CSR information. According to him, Fondation Guilé brings an added value for investors and investees with its in-depth assessments. Closing his remarks, Melchior de Muralt expressed his desire to find more consolidated reports providing relevant and accurate non-financial information which are useful to assess a company’s future strategic ability to cope with economic, social and environmental challenges and therefore to maintain its licence to operate.

Thomas Streiff, Head of the Guilé Engagement Team, recalled that there are challenges and opportunities related to the UN Global Compact. He emphasized that to achieve positive economic and social outcomes, the Guilé Engagement Team members – on behalf of the private and institutional investors of the two Guilé Engagement Funds - do not act as shareholder activists but are prepared to share the findings of their systematic analysis with representatives of the portfolio companies. Streiff explained the approach and the services offered by Fondation Guilé, which are – very briefly – comprehensive assessments of UNGC participants’ COP reports and other related publically available information (= basic service), COP/CSR policy workshops (maximizing benefit from the COP assessment) and multi-stakeholder initiatives (addressing dilemmas and contested issues in a constructive manner).

Thomas Streiff explained the methodology and the two dimensions of the Guilé analysis:

Dimension One: Comprehensiveness of Reporting

This first part of the benchmark analysis assesses what a COP report and other CSR information published by the company state about a company’s status of implementation regarding each of the ten UNGC Principles. The assessment criteria follow more or less the general management cycle and the analyst has to evaluate, based on very specific questions, to what extent the individual principles are integrated in a company’s management systems.

*“As conscious investors we are interested to learn **how** the UNGC principles are integrated into the management systems.”*

Dimension Two: Quality of Information Disclosed

The second part of the COP benchmarking assesses applied reporting practices against principles that are crucial for ensuring a credible and accurate disclosure of material information, including proper presentation. All of these principles are fundamental for effective transparency. The quality of information enables stakeholders to make sound and reasonable judgments of a company’s lived values and future performance.

*“As conscious investors we are interested to learn **how good** a company is reporting about its commitment.”*

Stakeholder engagement: Benefits for investees

Francis Quinn, Director Sustainable Development at L’Oréal, emphasised the need to recognise new ground rules and use the right compass to guide public and private strategies. He stressed that it is absolutely crucial to take the right decisions today in order to make a difference in terms of competitiveness tomorrow. However, what compass do we need to navigate in a world that has lost its economic and societal bearings so that leading players will make the right decisions for a fast-approaching future he was asking? Quinn presented three new paradigms:



The first paradigm states that **companies do not simply operate in markets — they also operate in societies**. Citizens and their representatives, both official and those representing civil society, influence the acceptability of a company's growth in the communities in which it operates.

"If your societal contribution is not up to mark, you run the risk, quite simply, of losing your licence to operate."

The second paradigm is the **customisation of Western capitalism** in parallel with the globalisation of markets. For instance, in Asia, the reference framework for social responsibility is inspired by national history and philosophical and religious traditions. As an example, the renewed interest in Confucianism in China is spearheading sharp growth in the individual life assurance market, but at the same time is questioning the nature of the social benefits offered to employees and their families.

The third paradigm is the **unsuitability of so-called "universal" CSR standards and existing codes of conduct** for evaluating the real impact of companies on societies. Therefore, is important to avoid trying to impose CSR criteria unilaterally. "We run the risk of not taking into account the "traditional fabric of obligations" which for centuries have been the pillars of social stability in many regions of the world", Quinn concluded.

Francis Quinn emphasized that the really big question is: *"How can we reduce the impact of human activities on the environment while offering better living conditions to two billion new consumers and preserving the social gains of the Northern countries?"*

Quinn showed that there are two pillars of sustainable growth:

- Investment in sustainable innovation

Companies have to rethink their innovation process in the light of sustainable development to ensure that major innovation is compatible with sustainability. Putting the consumer at the heart of innovation is crucial in this process. Precise and detailed knowledge of consumers' needs, cultural practices and aspirations in each country is the cornerstone of successful innovation.

- A commitment to sustainable consumption

Satisfying people's legitimate aspirations for better living conditions means allowing them to consume better thanks to improved, more effective products derived from sustainable innovation that respects the environment. But adopting sustainable consumption means moving from resolution to action by integrating it in every phase of the product's life cycle, through:

"Sustainable consumption is not consuming less!"

- Sustainable innovation
- A policy of fair trade
- Respect for the diversity of cultures

Quinn emphasized that it is essential to understand and recognise the fact that companies cannot take on the challenge of sustainable consumption alone. Sustainable consumption is therefore a responsibility shared by industry and all its stakeholders. This is why it is so important to establish an ongoing dialogue with citizen-consumers, based on trust.

"The annual radar screen of the Guilé Foundation (...) allows investors, but also the companies examined, to improve their approach in specific sectors thanks to strict benchmarking."

Moderated discussion among participants



During the subsequent dialogue among participants, moderated by Ernst A. Brugger, Board Member of Fondation Guilé, the above mentioned “double impact” on companies and investors was discussed in more detail. It was highlighted that while companies receive large numbers of questionnaires on CSR, in-depth assessments such as the one conducted by Fondation Guilé, are very much appreciated: Such evaluations help the CSR-responsible to

go back to the management and unblock resources. Further, during the dialogue it was emphasized that there is need to address stakeholders much more country-specifically. A sustainability report in China, for example, should deal with the specific issues of China (“glocalisation approach”).

During the stimulating debate about the multiple benefits of stakeholder engagement, the relation between CSR for stakeholders and for shareholders was discussed. Most often, CSR is focused on stakeholders other than investors. How can we convince investors that sustainable innovation creates value? The company representatives highlighted that actually it is an advantage to be scrutinized on environmental issues. If they move from a basic level (e.g. risk management) to a more elaborated level (e.g. eco-design or green chemistry), they gain advantages compared to the companies that lag 15 years behind. “Dynamics” was highlighted as another important value in this competition.

“Creating shared value is good for investors - that is the whole point.”



Further, there was a common opinion of the participants that short-term incentives often counter long-term sustainable decisions. Also the issue of integrated reporting was discussed. However, opinions among the participants were mixed: While some company representatives stated that they were “on the road” with integrated reporting, others found it difficult to deal with the challenges (e.g. the volume) of integrated reports.

Closing the event, two possible topics for a next meeting in Davos were suggested:

1. What is the link between investors and CSR?
2. What are the main opportunities and challenges of integrated reporting?

Annex I: Agenda of Private Event 2012

Stakeholder Engagement: Benefits for Investors, Investees and Society

Friday, 27 January 2012

Breakfast meeting and discussion 7.00 – 8.30

Waldhotel Davos / Davos Platz, Switzerland

7.00	Arrival of participants & breakfast
7.30	Enabling corporate dialogue with the United Nations: 5th anniversary of Guilé engagement in Davos – Régis Burrus, Chairman, Fondation Guilé
7.35	Guilé Engagement Funds: Creating a double dividend A dialogue between: – Melchior de Muralt, Partner, de Pury Pictet Turrettini – Thomas Streiff, Head, Guilé Engagement Team
7.50	Stakeholder engagement: Benefits for investees L'Oréal's experience with Fondation Guilé: - Francis Quinn, Director Sustainable Development, L'Oréal
8.10	Moderated discussion Dialogue among participants, moderated by - Ernst A. Brugger, Board Member, Fondation Guilé
8.30	End of meeting