From Principles to Practice
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This report is intended strictly as a learning document and should not be interpreted to indicate either effective or ineffective practices.

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Foreword

The genesis of this collection of case studies was a gathering in Berlin in December 2002 of some 200 global thought leaders and practitioners representing business, civil society, academia and other spheres. The occasion was the Second Annual International Global Compact Learning Forum Meeting, convened to share knowledge and understanding as to how organizations, principally businesses, can effectively implement the Global Compact and its nine principles related to human rights, labour conditions and the environment.

As part of the meeting, there were four case study working groups at which academics presented the findings of case studies on individual company efforts. The presentations were preceded by a short keynote on the overall topic. One of the working groups was focused on the challenge of moving from the Global Compact principles to practice. The keynote presentation for the working group was given by Aron Cramer from Business for Social Responsibility and highlights the results of research into the common features shared by companies that have successfully integrated corporate social responsibility into their policies and practices. The case studies themselves reflect three different ways in which companies are integrating the Global Compact principles – top down, strong leadership (Novartis); top down combined with a bottom up approach (Spedpol); and a focus on a supplier and a subsidiary as a pilot project (BMW/Designworks).

In an effort to build on this meeting, and to share the unique perspectives more widely, the Global Compact Office has decided to publish the case studies in this format. The case studies are also available on the Global Compact website, where it is possible to submit online comments about these and other case studies. As in Berlin, the case studies in this publication are introduced by a short paper from Aron Cramer.

The Global Compact Office would like to thank, in particular, the authors of the materials presented here for their thoughtful contributions, and the companies concerned for their cooperation. We are also very grateful to the peer reviewers – James E. Post, Christine Rosen, Wojciech Gasparski and Eleanor O’Higgins – who provided valuable feedback to the case authors during the case development process. We hope that the perspectives presented here will stimulate further dialogue, learning and exploration, as well as inspire others to move from principles to practice.

Global Compact participating companies interested in being the subject of a case study are welcome to contact the Global Compact Office at globalcompact@un.org as are academics interested in writing case studies or acting as peer reviewers.

Ellen Kallinowsky
Head Learning Forum
November 2003
The Global Compact

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards and the environment. The principles are as follows:

**Human Rights**

*Principle 1* | Businesses should support and respect the protection of internationally proclaimed human rights; and

*Principle 2* | make sure that they are not complicit in human rights abuses.

**Labour**

*Principle 3* | Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

*Principle 4* | the elimination of all forms of forced and compulsory labour;

*Principle 5* | the effective abolition of child labour; and

*Principle 6* | the elimination of discrimination in respect of employment and occupation.

**Environment**

*Principle 7* | Businesses should support a precautionary approach to environmental challenges;

*Principle 8* | undertake initiatives to promote greater environmental responsibility; and

*Principle 9* | encourage the development and diffusion of environmentally friendly technologies.

**Anti-Corruption**

*Principle 10* | Business should work against corruption in all its forms, including extortion and bribery. *

* The Secretary-General will introduce this principle at the Global Compact Leaders Summit on 24 June 2004.
The ultimate goal of a CSR management system is to integrate successfully corporate responsibility concerns – social, environmental and economic – into a company’s values, culture, operations and business decisions at all levels of the organization.

Business for Social Responsibility (BSR) is a global nonprofit organization that helps member companies achieve commercial success in ways that respect ethical values, people, communities and the environment. More information about BSR can be obtained from its website: www.bsr.org.
Common features of companies that have integrated CSR

Companies that appear to have most successfully integrated CSR into their policies and practices have at least three features in common. First, no structure is successful without a vision that defines a company's commitment, and which creates an environment where that vision can be put into practice. Second, the companies conducted an internal assessment to “inventory” their practices, and determine where gaps exist. Third, these companies developed a management system that embeds CSR inside the company's culture and processes, allowing CSR to flourish.

Nine steps to integrate CSR

The research included surveys of companies in seven different industry sectors. The companies in the study were also geographically diverse: they are based in North America, Europe, or Asia. Both publicly held and privately owned companies were examined. The companies studied also grew out of very different traditions of corporate governance. The fact that the nine steps were gleaned from an analysis of such a broad and diverse array of companies suggests that the nine steps are widely applicable to many other companies.

The case studies in this collection

There are three company case studies in this collection. Among other things, they illustrate the importance of creating a structure that maximizes the distinct contributions of each level of the organization: Board involvement; executive input; senior staff; CSR staff; and line personnel. BSR research has shown that finding ways for each level of the organization to support and reinforce the efforts of others is a critical variable that helps to determine the success, impact, and efficiency of CSR efforts.
Novartis and the United Nations Global Compact Initiative

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Abstract

THE SPIRIT OF THE GLOBAL COMPACT found fertile ground and has become an integral part of Novartis corporate strategy since the enterprise was formed by the merger of the two large Swiss pharmaceutical companies, Sandoz and Ciba, in 1996. Following a four-year concentration on economic consolidation and performance, Daniel Vasella (Chairman and CEO) signed the Global Compact. Together, productivity-based economic performance and a proactive approach to the expectations of society are envisioned as the key to long-term corporate success in the rapidly integrating global economic, political, and social environment of today’s large multinational corporation.

This case study outlines the Novartis strategy and its implementation including the coalescing role of the Global Compact in the drive for sustainable corporate development. Following a review of extending corporate strategy to incorporate social concerns into the economic business

This business case study of Novartis was prepared as a learning document for the United Nations Global Compact Learning Forum. Quotes are taken from interviews and Novartis publications along with news media references. This case study was peer reviewed by James E. Post of Boston University’s School of Management Strategy & Policy.
Strategic Positioning

Post Merger Economic Consolidation

Ciba and Sandoz approached the merger into Novartis (“new skills” in Latin) as an operating response to the growing competition, concentration, and institutional buying structure in the globally integrating life science industry. Both companies had roots in Basel dye production during the late 19th century, and had entered the merger after what The Operational Review called, “their best year ever.”

External observers, however, were less reassuring as to the past history of the two companies. According to Forbes, “Sandoz and Ciba-Geigy were plodding, risk averse and assiduously Swiss firms that often got trounced by faster, fiercer U.S. rivals. The research pipeline was dry, and marketers were slow on the draw.”

On the other side, financial analysts embraced enthusiastically the formation of Novartis resulting from the largest industrial merger in history at that time, and forming the world’s largest life science company (healthcare, agribusiness, and nutrition) and the second largest pharmaceutical firm.

The post merger period of intense performance-based consolidation included changes in the structure of the firm as well as its management system:

- At the time of the merger Ciba’s Dyestuffs, Additives, and Plastics divisions were spun off into a separate company, “Ciba Speciality Chemicals.”
- Due to the lack of substantial synergies with other Novartis activities, Agriculture was divested in 2000 and merged with the agricultural division of Astra-Zeneca to form the Syngenta corporation. At that time, the agribusiness operation was the largest in the world. It represented 28 percent of Novartis’ revenue and 24 percent of operating income.

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3 For an extensive, nuanced report on the implementation of the Global Compact Initiative within the changing multinational pharmaceutical environment, see Klaus Leisinger, “Towards Globalization With a Human Face: Implementation of the UN Global Compact Initiative at Novartis” (http://www.foundation.novartis.com/novartis_un_global_compact_globalization.htm). An executive with Novartis and at a predecessor firm since 1974, Leisinger is President and Executive Director of the Novartis Foundation for Sustainable Development. He is a member of the Steering Committee charged with implementing the Global Compact at Novartis and is closely associated with the process.


• In 2000, Novartis shares were listed on the U.S. stock exchange as American Depository Receipts, positioning Novartis as more attractive to U.S. investors.

• Merger personnel redundancies were reduced largely through natural attrition and early retirements. Some employees started their own businesses with financial support from the Novartis Venture Fund. The first year following the merger, the workforce was reduced by 9,199 at which point 62 percent of the anticipated merger cost synergies and the targeted 12 percent workforce reduction were achieved. At the same time 2,400 new people with needed expertise were hired.

• During the consolidation phase, a third of the 100 most senior managers joined Novartis from other companies. In the United States, of the top 13 executives in 1999, only two remain.

• Performance-based compensation was rigorously applied across the company with total compensation targeting the fiftieth percentile of the compensation offered by a set of comparable competitors. Over 6,000 employees now receive share options as part of their remuneration.

• The pharmaceutical business was split into worldwide strategic business units centered around therapeutic areas and customers with some of its global management headquartered in the United States.

• The Novartis presence in the U.S. market was dramatically increased – the sales force growing from 3,100 to 4,600 in 1999 alone, probably the fastest expansion in pharmaceutical history. Using direct-to-consumer advertising, upgrading sales training, and accepting the risk of comparing their products with the best the industry has to offer in clinical trials and post approval marketing, the Wall Street Journal credits Vasella with “...transferring the firm into a bare-knuckled, American-style marketing powerhouse.”

• The process of drug discovery and development was reorganized and revitalized to get drugs to the market more quickly. At the time of the merger, over half of drug sales were from patent-expired products. Development time has been shortened from 12 to about 8 years, with a sharper market-oriented focus.

• The financial performance (See Appendix A) reflects the synergistic value of the merger and the emphasis on managerial performance.

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Strategic Expansion To Include Corporate Citizenship

By 2000, with the consolidation process becoming secure, Vasella believed Novartis had achieved the economic freedom to be more encompassing in its response to societal claims on business enterprises. In July, Novartis signed the United Nations Global Compact following a conversation between Kofi Annan and Daniel Vasella. The Global Compact served an important coalescing role as Novartis moved to a sustainable long-term position in the market. Urs Baerlocher, the senior executive for implementing the policy, describes the role of the Global Compact: “The Global Compact, its principles and requirement to demonstrate credible action, triggered a discussion within Novartis on the nature of human rights, access to medicines, and the existing Code of Conduct, which led to our Corporate Citizenship Policy as an encompassing view of Novartis responsibility.”

The generality of the Global Compact principles needed to be particularized for the specific Novartis environment as a first step in implementation. The Corporate Citizenship Policy translates these principles to fit Novartis as a global pharmaceutical company. During its year-long preparation, Novartis planners sought the counsel of non-governmental organizations such as the World Resources Institute, SustainAbility Ltd., and the Stakeholder Forum for Our Common Future (formerly UNED Forum).

Introducing the Policy on Corporate Citizenship in October 2001, Vasella stated: “The Policy was developed in response to our commitment to the Global Compact, which was set forth by the Secretary General of the United Nations, Kofi Annan. Across geographies and throughout our organization we will, in all our business, social, and environmental activities, strive to be in line with the principles of the Global Compact. We believe that adhering to values is especially important for large organizations in times of rapid change and globalization, as they provide guiding principles. In our business, we are using innovative new technologies to search for novel lifesaving medical treatments. In some cases, these developments raise ethical challenges which must be carefully considered with the establishment of proper boundaries, but Novartis’ ultimate goal is to contribute to helping patients in need.”

At Novartis, corporate citizenship is not considered a socially responsive add-on. It is intended to be an integral, necessary component of a successful pharmaceutical company. Novartis is serious about this being a strategic business initiative. Martin Batzer (Head, Pharma Affairs)
describes this initiative in terms of a “license to operate.” “It is the third concentric circle in a strategy of economic maximization for shareholders; attention to other stakeholders including associates (the Novartis term for employees), customers, and communities; and the third part of continuing attention to the permission of society for the right of the corporation to exist. Integrating these three circles and ensuring that the third (license to operate) feeds back into the other two is the key to sustainable corporate development in the long-term. If you don’t have the license to operate, you can forget everything else.” And, as noted by Terry Barnett (President and Chief Executive Officer, Novartis Corporation), “Right now, as a pharmaceutical company, that license seems to be up for renegotiation. At issue is the appropriate role of the pharmaceutical industry in the total healthcare environment.” Baerlocher states, “If we want to be truly successful we need to achieve beyond products and services. We also need our stakeholders to recognize that we are a valuable part of society, a good corporate citizen.” Johannes Frey (Head, Corporate Affairs) notes, “Often the pursuit of corporate citizenship can have a direct payoff. You follow a risk management approach as we have refined it in our Health, Safety, and Environment Practices of incurring an expense now to minimize great damage down the road. Corporate citizenship is an investment.”

Operationalizing a Strategy of Corporate Citizenship

In its Policy on Corporate Citizenship, Novartis commits itself to the broad vision of human rights – the same base as the Global Compact principles. “The Novartis core values are based on the fundamental rights of every individual, such as the protection of privacy, freedom of opinion and expression, freedom of association, nondiscrimination, and the right to be heard. We seek to promote and protect the rights defined in the Universal Declaration of Human Rights of the United Nations within our sphere of influence. We do not tolerate human rights abuses within our own business operations.”

A Focus on Process
This policy goes well beyond the political and civil rights that form the core of what are called the first generation of human rights to include

“On a global level, Novartis is committed to sustainable development and its three principles of economic, social, and environmental progress. We want to be a leading corporate citizen, both technologically and economically, and achievement of that goal is closely linked to our ability to contribute to the benefit of people. Our Policy on Corporate Citizenship outlines our pledge, and it is both a strategic business initiative – and the right thing to do.”

Vasella, CEO
second generation economic, social, and cultural rights. In most business activities, it is the second generation rights that are to be promoted and protected “within our sphere of influence” and the abuses which will not be tolerated “within our own business operation.” These second generation rights are far more difficult to specify; society is continually redefining its human rights concerns and acceptable thresholds; while national legislation supports these rights, they have received only modest recognition in the constitutions of modern Western cultures; they can easily become politicized; they can contradict one another; protecting second generation rights can be expensive.

Given the continuing advance of societal expectations for the private sector, and based on a foundation of valuable experience in responding to environmental and social needs, Novartis is focusing on the process of achieving corporate citizenship. The process begins with an articulation of one’s ultimate vision as quoted above supported by a strategy and a system that incrementally ratchet toward that vision through a steady process of setting, measuring, achieving, testing, and refining standards. The idea is to establish a transparent process relating to those inside as well as outside the firm where objectives can be adapted as learning and measurements are refined. There will be shortfalls as Norman Walker (Head, Human Resources) notes, “I can’t say we will meet all of our requirements today. It’s a journey we have started with the purpose of seeing that our standards are achieved.” In the final analysis, however, as Vasella states, “Don’t make commitments you can’t keep.”

Valuable Experience

In its implementation efforts, Novartis draws on a valuable history of involvement with civil society in its environmental and social response through its Health, Safety, and Environment (HSE) initiative and the Novartis Foundation for Sustainable Development.

The HSE initiative began in the early technologically driven, production-focused ecological era of the 1980s. Over time, HSE has become a part of line managerial responsibility analyzed annually in the context of local legal requirements, relative impact, competitive performance, and available state of the art technology. Targets are set for each sector, performance measured (116 sites in 2001), externally verified and published in detail. The development of this HSE process over the years has bene-

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Norman Walker
Head, Human Resources
fitted substantially from dialogue with representatives from the other components of civil society.

The HSE experience has helped Novartis find a balance between precaution and innovation in applying the “precautionary approach.” This approach, more than any other clause of the Global Compact, has created hesitancy among firms in the United States. The Global Compact is not specific in its seventh principle, asking firms to: “Support a precautionary approach to environmental challenges.” The principle is defined in the United Nations Rio Declaration: “Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation.” In applying the approach to human health as well as the environment, Novartis makes a distinction between prevention and precaution. Prevention applies when there is a scientifically known cause and effect. Prevention is an issue of cost. Precaution applies when there is scientific uncertainty. As Kaspar Eigenmann (Head, Corporate Health, Safety, and Environment) points out: “When the activity could lead to grave consequences, even if there is no full scientific proof, one should take reasonable measures. The principle makes common sense. It’s the application that creates controversy – how is the reasonable likelihood or the application of reasonable measures to be determined?” The Novartis position states: “We take a precautionary approach in the innovation and development of new products and technologies. To this end, we follow a step-by-step approach, we engage in scientific peer review, and we consider benefits and risks of innovation in a scientific and transparent manner,” a position initially “challenged” by the U.S. legal staff.

Alternatively, as Julie Kane (Vice President, Novartis Corporation) notes, “Lawyers are nervous, but their role is to advise about the risk so management can make the right decision.”

The Novartis Foundation for Sustainable Development concentrates on sustainable development in the poor regions of the world. With the philosophy that “only autonomous development can constitute sustainable development,” social development projects are undertaken in partnership with local nongovernmental organizations (NGOs): work with AIDS orphans in Northern Tanzania and South and East Africa, conflict management and the empowerment of women in Palestine, community development in Brazil and Sri Lanka, as well as leprosy cure and rehabilita-
Novartis stakeholder policy states:
“We provide relevant information and actively listen to stakeholders. In assessing controversial products, processes and technology, we seek dialogue with all stakeholders.”

...tation in partnership with the World Health Organization (WHO), National Health authorities, and NGOs. Other activities include a social research and publication program, and stakeholder dialogue and networking. Stakeholder dialogue is directed to “increase internal awareness of societal perceptions of development issues,” to “increase external awareness of business realities,” and to “keep in touch with societal expectations” through conferences, symposia, workshops, and membership in social committees and boards.

The twenty years of experience with each of these initiatives has helped Novartis recognize the value of access to the information and worldviews of civil society. There are many guiding principles about how best to undertake the dialogue between management and representatives from other segments of civil society. Two experiences as reflected in the interviews have been helpful in shaping Novartis policy. Kaspar Eigenmann describes an interaction that began in the late 1980s. At a casual dinner following a formal meeting on chemicals policy, a small group of participants from Ciba-Geigy and The Ecological Scientific Institutes in Vienna and Freiburg concluded that dialogue would be more productive than confrontation. They initiated a series of small informal meetings often with neutral experts. Initially, neither side told their colleagues about these discussions, since both assumed their colleagues would judge this kind of interaction inappropriate. Over time, each side learned to appreciate the other’s logic. Some discussion topics led to joint research and scientific publication, some only to more talk. In all, around five projects emerged from this contact. The periodic meetings continue with new younger people coming into the process. A stakeholder experience related by Klaus Leisinger (Executive Director, Novartis Foundation) involved the importance of including the decision makers in the process. In a joint corporate/NGO attempt to assess the consequences of Green Gene Technology, senior corporate and NGO management assigned the dialogic task to staff specialists. In an effective dialogue over three years, the participants learned from each other in what Leisinger describes as a “discursive learning curve.” They reached consensus on a series of recommendations, a consensus to which neither corporate nor NGO senior management would agree, since they had not participated in the learning curve and could not be convinced.

Based on these kinds of experiences, the Novartis stakeholder policy states: “We provide relevant information and actively listen to stakehold-
ers. In assessing controversial products, processes and technology, we seek dialogue with all stakeholders.” This policy extends the business model of listening to the market to the sustainable corporate model of listening to the signals from civil society. As Andreas Seiter (Head, Stakeholder Relations) explains, “It’s important that we tell them, but even more important that they tell us. When there is a developing issue which influences our future business strategy, we should be part of that debate, listening first before we make our point.” The idea is to extract issues as they begin to form, long before they reach the media threshold, at which point the perceptions are set. If initiated early, discussions are interesting for both sides, particularly when there is scientific evidence to share. This window of discussion opportunity can last for up to six years.

From Concept to Action
While the idea of corporate citizenship is defined by headquarters as a component of long-term corporate sustainability, managers at the local levels, where the policy takes effect, face a plethora of immediate concerns and pressures toward short-term performance targets. Dieter Wissler (Head, Corporate Communication) describes the challenge. “The deeper you go into the organization, the greater the pressure on short-term results, and the less a person thinks about corporate social responsibility. For local managers, corporate citizenship can be seen as a dictate from headquarters that drains energy from their operating focus.” Complicating the distinction between headquarters and the field at Novartis are differences in the European and American views about the role of the Global Compact principles in corporate sustainability. What is clear in the European perception is not as clear in the U.S. environment.

Norman Walker sees corporate citizenship as a more difficult task than implementing the HSE Policy. “It poses a deep challenge to a company and the way it operates, it is much more about our collective behavior. This demands a specific attitude throughout the organization.” Erwin Schillinger (Head, International Coordination) makes a similar comparison to the Novartis Code of Conduct, initiated on a global basis two years before the Global Compact. “The Global Compact added a whole new dimension. While the Code addresses individual rights and responsibilities, the Global Compact is an obligation of the company with the necessity of bringing managerial decisions in line with its provisions.”
A campaign of awareness was initiated throughout the organization. Following a series of corporate announcements, the Corporate Citizenship Policy was one-fourth of the program at the annual retreat of the top Novartis executives at Interlaken in February 2002, as well as sectoral and regional management meetings. Discussions were initiated through the Novartis Intranet. According to Walker, “You need to allow people to understand why you are pursuing these changes. This is best accomplished by engaging people face-to-face in a young company like Novartis. The enthusiasm for corporate citizenship as a strategic initiative has been a pleasant surprise. We found that the purpose of the company is very important to our people, far more than just coming to the office day after day. This is something they can relate to.” Alternatively, “While our people in the United States are proud to have their company endorse the Principles, they are very much focused on the realities of the marketplace. They are somewhat detached from the Principles and do not see their relevance as a U.S. issue” (Barnett).

The next step was specific guidelines. In structuring the guidelines, the Steering Committee prepared an inventory of policy commitments which relate to the underlying themes of the corporate citizenship strategy, how it unfolds into specific concerns to be addressed, and to their related policy commitments. Further preparation involved the analysis of a wide range of United Nations documents and various codes of business conduct. The Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, and the International Covenant on Economic, Cultural, and Social Rights provided the broad framework. More specific guidance on qualitative and quantitative standards was drawn from the International Labor Organization conventions, recommendations, and declaration as well as other specific principles such as the United Nations Code of Conduct for Law Enforcement Officials, the U.N. Human Rights Sub-Commission Draft on Universal Human Rights Guidance for Companies, and the OECD Guidelines for Multinational Enterprises. Consideration extended, for example, all the way to the possibility of credit schemes for micro-entrepreneurs in the supply chain. Checklists for core indicators of minimum requirements and best practices were prepared. In the end, however, there were surprisingly few specific standards in these documents.

Four guidelines were issued in June 2002 with a fifth in formulation. In preparation for a year, these guidelines were debated internally at all lev-
els of the organization and circulated externally for comment. Each addresses responsibilities, principles and standards, the management process, and the reporting criterion unique to the specific guideline.

Guideline #1: Management of Corporate Citizenship. This initial guideline regulates the scope and applicability for those that follow. It sets the structure for the “active management of corporate citizenship.” The broad reach of the document addresses priority conflicts that might arise between corporate citizenship and short-term operating objectives that need to be arbitrated; a safe complaint procedure for employees who report corporate citizenship deficiencies; application of the principles to Novartis partners; reporting and audit procedures as well as the possibility of commissioning external auditors.

Guideline #2: Fair Working Conditions. This guideline is directed to human resources, including the related aspects of human rights. The creation of a reporting system is an important component of this guideline. Before the Global Compact, working conditions were considered to be a local responsibility. Early resistance to reporting was reminiscent of the early days of the HSE – Why do we have to do this? What’s it really for?

The third Global Compact principle was discussed at length in the preparation of this guideline. It asks world business “to uphold freedom of association and effective recognition of the right to collective bargaining.” Jeff Benjamin (Vice President and Deputy General Counsel, Novartis Corporation) states, “Our existing policy is union neutral. Our companies make sui generis decisions.” While the language of the principle itself is not inflammatory, nor risky, legal staffs and managers of many companies, particularly in the United States, are concerned that the United Nations will interpret and measure the principle in ways that put pressure on firms to be pro union.

The guideline clause on freedom of association recognizes the employee’s right to choose whether to join a trade union or employee association, but establishes criteria for these associations in terms of democratic principles, the existence of written statutes, a history of legal compliance, and that they be free and independent associations not committed to violence. Additional criteria may be established by local Novartis companies. As in other Novartis policies, dialogue is included: “Each Country Service Officer shall establish a communication process that ensures a free exchange of opinion [with associates] and a constructive dialogue.”
Guideline #3: Business Ethics – Bribes, Gifts, and Entertainment. This guideline covers a topic not explicitly included as a principle in the Global Compact, drawing on the provisions of the Novartis Code of Conduct. Governmental corruption, bribery, and marketing practices, along with access to medicines was identified by Novartis top management at the introduction of the Corporate Citizenship policy in Interlaken as the most important issues facing the industry. Batzer sees marketing practices as the toughest part in all of the guidelines, “How does one find the balance between competing in what has become a very aggressive market set against the exposure to the damage of what are viewed as unethical practices, with guidelines that hold across cultures and legal regimes?” The Code of Conduct states, “No employee shall make any payment, or kickback, or offer improper financial advantage to an official of a government or a government-controlled entity for the purpose of obtaining business or other services, as set out in the OECD Convention on Combating Bribery of Foreign Public Officials.” A true challenge, Christian Seiwald (Sector Head, Generics) said, “Corruption is a problem that all companies have to confront. Solutions can only be home grown.” There are undoubtedly cases out there, the task of Novartis is to change that behavior.

Here, especially, senior management must convince everyone in the company of the seriousness of bribery. Johannes Frey notes, “What headquarters would regard as a corrupting action can make sense to a local associate focusing on a specific business transaction in a lenient community who does not internalize the great risk to the company in an environment where the company needs to prove every day that it lives by its statements.”

This guideline defines and prohibits bribing of government officials directly or through intermediaries. It addresses the distinctions between, and provides guidance for, facilitating payments, gifts and entertainment, charitable donations and cultural contributions, political donations and contributions, and acceptable payments. Local managers must explicitly report on their large transactions and consult with the relevant Corporate Citizenship Officer for any payments over $US 100. Acts of private bribery are particularly difficult to assess due to the complex of codes, regulations, and contractual provisions that apply.

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Guideline #4: Human Rights and Engagement in Society. Focusing on the human rights issues that become the responsibility of Novartis, this guideline covers stakeholder engagement and government relations. The policy recognizes that many human rights issues occur when local background institutions or governments are uninterested or not sufficiently empowered to protect human rights, and that Novartis has varying degrees of power to intervene. The guideline directs a policy of governmental engagement. “Relationships with governments and other public authorities need to be actively managed.” But, “As a rule, local Novartis companies should be reluctant to get involved with political parties and take sides in election campaigns.” Advocacy stances are acceptable if managed with care. Aware of the increasing importance of the cultural, economic, and social dimensions of human rights, an amended version of this guideline will be issued in early 2003.

Johannes Frey believes this will be the most difficult guideline to implement. The margin of judgment is great, as can be the cost of making a mistake. Managers must let governments and NGOs (groups with whom they tend to be uncomfortable) into their decisions with the attendant loss of control.

Guideline #5 will concentrate on third party relationships. The Novartis policy states, “We give priority to business partners, suppliers, and contractors who share our societal and environmental values, and we support their efforts to promote these values through their business activities.” The questions to be addressed in translating the policy to guidelines as outlined by Kaspar Eigenmann include, “How do we assess those who share our values; how is giving preference different from imposing specific standards; how does one balance how far to press one’s values on third parties and what legal liabilities are created; how does responsibility differ for subcontractors using Novartis technology, for suppliers where Novartis takes most of their output, or where national legal environments are weak?” On a practical basis, where should initial efforts be concentrated – on the largest subcontractors in the most difficult countries?

The guidelines are in a continuing process of review and revision as experience is gained and measures refined. Standards will be clarified as general principles are linked with concrete business activities.
Establishing Credibility

Implementing a long-term corporate citizenship strategy is a matter not only of actions but also of being perceived as doing a good job by internal and external stakeholders as well as by the broader society. As an integral component of sustainable corporate development, corporate citizenship becomes a matter of pride for members of the Novartis organization, generates positive reputational effects among external stakeholders, and ensures continuation of the license to operate from the broader society. Following the HSE and Foundation experience, it is intended that NGOs will have input into the process, measurements, and targets, as well as certification of the results.

The active management of corporate citizenship means making it an integral part of Novartis line management and, to the extent possible, with third parties. Each of the guidelines concludes with a section on “reporting criteria and measurement.” The internal process of auditing compliance will follow the procedures of the financial and HSE audits. Specific responsibilities have been created throughout the organization and assigned as collateral duties. Novartis has concluded that making the compliance auditing responsibility a collateral duty at numerous levels throughout the organization is more effective in creating organizational change than fewer specialized personnel. Most of these collateral duties are currently assigned to the human relations and legal staffs although Eigenmann would like to include more line managers. With an initial emphasis on managerial processes and auditors serving in a consulting role, the auditing function will increasingly include performance as measures are refined and targets set – following the HSE experience.

Understanding transparency as a necessary precondition for credibility, these assessments will be a component of the Novartis annual report following a process to be initiated in 2002. At that time, the HSE data and verification which have been published in a separate Operational Review since 1996 will be included in that document.

External monitoring is yet to be resolved. It is accepted in principle and included in the guidelines but not yet operationalized. As Leisinger notes, “Independent external verification plays an important role for the credibility of a company’s compliance effort – indeed, it is a precondition….The search for consensus should therefore not focus on the question ‘Yes or No’ but on the ‘How.’” As with all external monitoring systems there are ques-
tions of appropriate expertise, the process and its cost, the protection of proprietary information, the external monitor's attitudes and organizational culture as well as their own credibility, and the public disclosure process and detail. An unusual problem with NGOs as monitors outlined by Peter Tobler (Compliance Officer) is the breadth of the Policy set against the typically more narrow focus of the individual NGO. An ideal external monitor is one with credibility who is willing to participate with Novartis as they both jointly work to improve a transparent process. As successful as the HSE external auditing process has become, it is still a public verification of technical data collected and reported by Novartis.

Examples of Implementation

Three examples of applying the principles of the Global Compact and Corporate Citizenship reflect where Novartis finds itself in the process at this time. Two projects reflect the issue of access to medicine unique to the pharmaceutical industry. The third example is common across industries, particularly those relying on subcontracted production in developing countries.

Responsibility for Access to Drugs

It is estimated that over one-third of the world’s population lacks access to essential health services, including drugs. Limitation on access to treatment is a multifaceted issue involving the absence of medical services, unreliable health and supply systems, lack of sustainable financing, irrational selection and use of drugs, as well as the availability and price of drugs.

Society is evolving to the conclusion that medical care is a human right, and that the pharmaceutical industry has a unique responsibility to help sick people gain access to life saving medicines. This is an extension of the Global Compact first Principle which asks world business to “support and respect the protection of internationally proclaimed human rights within their sphere of influence.” In outlining the specific requirements associated with that principle, the U.N. directs business responsibility to an extension of the workplace ensuring the “rights to basic health, education, and housing (in areas where these are not provided).” The pharmaceutical access to medicine programs reach well beyond the workplace and local communities to a broader “sphere of influence” embracing patients
far beyond the traditional stakeholder boundaries. This is a reflection of Dr. Vasella’s early experience in medical practice as well as that of other physicians in Novartis and the industry. It also recognizes the view expressed by Vasella, “Unless the pharmaceutical industry achieves its objectives of being an accepted and valued player in society, we will be at a disadvantage in every new law and regulation that comes up.”

Pharmaceutical companies are responding. For developing countries, they are networking with civil society, governmental agencies, and components of the United Nations. Novartis, for example, is part of the Global Alliance to Eliminate Leprosy. The firm donates a multi-drug therapy which can cure the disease in six months or a year (depending on the disease form). The drug has been available free of charge since 1995, and Novartis is committed to continue until leprosy has been eliminated. Through the Novartis Foundation for Sustainable Development, in conjunction with governmental agencies, private foundations, the WHO, and the World Bank, the inadequacies of local health infrastructure as well as the fear and prejudice associated with leprosy are gradually being overcome. Another partnership with the WHO is for the treatment of malaria. In conjunction with the Chinese Academy of Military and Medical Science, Novartis discovered and developed the most potent anti-malarial for non-complicated Plasmodium falciparum. In this agreement, Novartis is providing the drug at cost. For Novartis employees and their nuclear families in developing countries, the firm is involved in the diagnosis, treatment, and care of HIV/AIDS, TB, and malaria. When not available through other sources, Novartis pays for the cost of assuring this coverage.

Some pharmaceuticals are directly involved in finding treatments for diseases where there is no viable commercial market, thus posing a challenge to the wealth maximizing business model. Merck, for example, developed Mectizan to treat onchocerciasis (river blindness), a disease which had devastated the populations of rich tropical river valleys for centuries. Novartis is in the process of creating an Institute for Tropical Diseases in Singapore, which will concentrate on the discovery of treatments for these kinds of diseases.

The new research approach of searching for molecular targeting therapies is expensive, thus driving treatment costs beyond the reach of many patients. Here, broad patient assistance programs, such as the Novartis graduated assistance approach to its new drug, Gleevec, are coming into use.
Research on Tropical Diseases: Example #1

The Novartis Institute for Tropical Diseases has recently been established in collaboration with the Singapore Economic Development Board. The purpose of this research institute is to discover treatments for diseases of poverty, beginning with tuberculosis and dengue fever. At the present time, less than 10 percent of the total pharmaceutical spending on research is directed toward tropical diseases which comprise 90 percent of the world’s health problems.

The Global Compact was an important stimulus in the decision to emphasize drug discovery for tropical diseases. Paul Herrling (Head, Research) noted, “Within Novartis, the Global Compact stimulated the discussion of access to medicines which led to the idea of a tropical disease laboratory and to Singapore.” On a broader basis, the kind of awareness reflected in the Global Compact has brought shareholders from resistance, to acceptance, and now to preference for these kinds of contributions. “Feedback at shareholder meetings about the Singapore project has been very positive.”

Singapore is one of many collaborative efforts of Novartis. As a non-commercial effort, however, the open nature of its research environment will be unique. Indeed, the intent of the Institute is to become a center for developing-country scientists, including a major training component. Its initial focus on tuberculosis (a bacterial disease) and dengue fever (a viral infection from parasites) will be extended to other tropical diseases. Its contribution will be in drug discovery, seeking other partners for the development of these drugs.

More important than the financial commitment of $US 122 million is access to the Novartis laboratory management skills and experience in drug discovery. Beyond that, Novartis will be contributing specific compounds that may have potential for the treatment of tropical diseases. “In the drug discovery process, it repeatedly occurs during searches for a specific therapeutic profile that medicines are found to have additional beneficial effects in other diseases. One could imagine that while searching for drugs against the hepatitic C virus, something useful for dengue fever

“Within Novartis, the Global Compact stimulated the discussion of access to medicines which led to the idea of a tropical disease laboratory and to Singapore.”

Paul Herrling
Head, Research

8 Of the over US$ 2 billion budgeted annually for research and development, about one-third is allocated to collaboration with other research centers. This share, in the upper range for pharmaceutical companies, is deemed necessary in order to keep the 300 scientists at Novartis in close contact with the many drug discovery networks of interest to the firm. The importance of discovery networks is underscored in the 38-year history of the Novartis drug Gleevec summarized in the next section.
might be found, and vice versa. This occurs because evolution uses similar biological mechanisms in different contexts" (Herrling). Thus, a mechanism is being implemented to redirect compounds or small molecules that show potential for the treatment of tropical diseases from the Novartis commercial discovery laboratories to the Institute. At the time of the interview, Herrling had two of these compounds on his desk for evaluation. One compound in particular, while ineffective against cancer, had been identified as a possible treatment for parasitic tropical infections, given the nature of the compound and its history.

Ensuring Access to a Viable Commercial Drug: Example #2

The second example involves an economically viable commercial drug. A breakthrough in drug discovery, this treatment has demonstrated unprecedented efficacy in treating a relatively small population of cancer patients. While it is expensive, Gleevec holds a virtual “efficacy and tolerability” monopoly in treating specific forms of leukemia and rare gastrointestinal tumors. The Novartis position is that all appropriate patients should not be denied access to the drug because of financial reasons. As such, the company has initiated patient support programs globally.

Gleevec is a young drug with stunning early success in treating chronic myelogenous leukemia (CML), a disease with a mortality rate near 25,000 yearly across the world.9 Paul Herrling describes Gleevec as “a new class of drugs based on understanding the pathway which leads from the gene to the disease and targeting the therapy to that specific abnormality.” The results of the first clinical trials, begun in mid-1998 and initially reported in December 1999,10 “took the oncology-hematology community by storm.” Of the 31 patients in this Phase I trial, all experienced a significant decrease in the number of cancerous white blood cells (symptomatic of the disease) while a third experienced very significant reduction or disappearance of cancer cells with the diseased chromosome. Based on these early results, Novartis, in rapid fashion, began industrial-scale production in February 1999 (a complex process taking eight to nine months and requiring a dozen steps) and initiated its Phase II clinical trials. Application for approval by the United States Food and Drug Administration was com-

9 The official name of the drug is Gleevec in the United States and Glivec in the rest of the world. Before April 2001, it was referred to as STI571, a term still in use.
pleted in March 2001, just 32 months after the first human trials. This compares to the typical drug development time of six years. As David Epstein (President, Novartis Oncology) described the process, “We believe this is the fastest from first dose in man to filing.” Approval (a process that can take anywhere from 12 to 18 months normally) was granted in 72 days. The product was at the wholesalers within 24 hours of approval. It is currently approved in most countries for treating certain forms of CML and now certain forms of gastrointestinal stromal tumors (GIST).

Thanks to the internet, the news of Gleevec has spread rapidly across the world. At a worldwide price of between $2,000 and $2,500 per month, most patients would not be able to pay for the drug without insurance or reimbursement through their country’s healthcare system. Novartis management firmly believes a drug with such a dramatic potential should be available to all appropriate patients with CML. At the same time, as a breakthrough drug, Gleevec must provide a profit in order to support additional investment not only in further study of it, but also for further research in oncology and other therapeutic areas. The Novartis solution is to make Gleevec available worldwide through special assistance programs.

A specific program was devised for the United States since the healthcare system is not a federally subsidized one as is the case in most other industrialized countries. This is a graduated program with patient assistance offered at various levels based on income, assets, and household size – from receiving the drug free of charge if assets are below a certain amount and income less than $44,300 a year to paying a graduated portion of the total cost. Assistance extends beyond five times the poverty level in some instances. (Most donation programs are limited to less than two times the poverty level.) The operation of this system in the United States is managed by a third party – Documedics – with specific expertise in reimbursement programs in oncology. In the United States, Gleevec is covered by virtually all private insurance policies, although it is not covered by Medicare since Medicare only covers injectables or physician administered drugs and Gleevec is an oral therapy. Patients contact the Gleevec Reimbursement Hotline to see if they are eligible. This is the program managed by Documedics, which then assesses the patient’s income, assets, and household status based on the information provided by the patients, assists in the search for alternative reimbursement sources and, if necessary, initiates the Patient Assistance Program. Gleevec is then shipped directly to the patient.
The Gleevec Program is precedent-setting in the United States market. Many pharmaceutical companies, including Novartis, have made drugs available to those who could not afford them, but no one else to date has published a graduated support system based on a patient’s ability to pay. This program works due to the dependability of medical diagnosis, the assistance of the physician’s office staff and the Novartis sales force, access to Documedics, and the breadth and uniformity of private healthcare coverage.

A different kind of program is operational outside the United States — the Glivec international Patient Assistance Program (GIPAP). This is not an additional reimbursement program but rather a donation program that follows specific criteria. Outside the United States, the nature of the healthcare systems and the quality of infrastructures varies dramatically. In many countries, the government healthcare system subsidizes pharmaceuticals. However, a large number of countries do not have health insurance – private or government. For these countries, Novartis has initiated the GIPAP Program. Through GIPAP, Glivec is made available in countries where it is approved for treating certain forms of CML and GIST. Qualified patients are those who are properly diagnosed, not insured, not reimbursed, and have no other financial recourse (unable to pay privately).

In order to ensure that appropriate patients are considered for this drug therapy, applications for GIPAP assistance must be initiated by physicians on behalf of their patients. The physician must be involved in all stages of the treatment (diagnosis, prescription, and follow-through). This regulation is in accordance with the World Health Organization (WHO), who provides global guidance on essential drugs and medicines, and works with individual countries on implementation of national drug policies.

The Max Foundation, an international non-profit organization dedicated to people with leukemia and other blood-related diseases, administers GIPAP (applications are available via the Internet, www.themaxfoundation.org). Most communication with the Max Foundation is through the Internet. The creativity of this approach is the reliance on the physician and the use of the Internet as the systemic vehicle. Together, these minimize the distributional infra-structure.

Thus, both Gleevec, as a young drug, and its distribution systems are works in progress.
Ensuring the Rights of Workers: Example #3

An early step in implementing the Global Compact was a baseline survey undertaken by the Steering Committee to assess issues relative to compliance with the principles and to identify areas of sensitivity to human rights abuses where Novartis operations could be vulnerable. Of particular concern were third-party activities.

While Novartis has no legal liability for the stakeholders of subcontracting firms, it was determined that this is a component of the human rights policy as indicated in the Global Compact and since the well being of subcontractor stakeholders is affected by the activities of Novartis. This is particularly true when the stakeholders do not have adequate local background institutions to represent their interests. In Western Europe and the United States, society has decided that these third-party stakeholders are the responsibility of the multinational, a view which can conflict with those of the developing world.

This third example arose from the baseline vulnerability assessment based on the Global Compact Principle six: “to uphold the elimination of discrimination in respect of employment and occupation.” In addition, the second Principle asks world business “to make sure they are not complicit in human rights abuses.” The initial vulnerability questionnaire identified two examples. To the surprise of management, one was in Basel where a janitorial contracting firm was paying less than the community standard. Another example was the existence of pregnancy testing at a subcontracting production facility in a developing country free trade zone. The management of the plant was pregnancy testing job applicants during a pre-employment physical without the applicant’s knowledge, and denying employment to pregnant women. Before the Global Compact emphasis on human rights, pregnancy testing had never surfaced as a part of Novartis’ anti-discrimination policy.

As with most human rights issues, there were a number of complicating factors: The production facility was owned and managed by the local government, as was the whole free trade zone; undisclosed pregnancy testing was not against the law; it was the policy across the free trade zone where a condition of employment was that the worker be unmarried and not pregnant. The senior plant management believed they were making an important contribution to the applicant by providing a physical examination – perhaps the first in her life. It was argued,
since most of these applicants were migrant workers from distant, remote villages, they should know about their pregnancy in time to return home for the birth and for the nurturing environment of the extended family – an environment that could not be replicated at the plant site. The management of the plant and that of the free trade zone were convinced their policy was the best for the applicant, for the free trade zone, and for their society.

The counter argument, based on the dignity of the applicant, was that pregnancy is such a central and unique component of a woman’s identity, even though others may treat the issue with great respect, the woman herself should decide whether to reveal her pregnancy and determine what would be best for herself and her child.

Pregnancy testing can be viewed both as a form of sex discrimination and a violation of a woman’s right to privacy. While sex discrimination is prohibited by ILO convention, it does not explicitly address pregnancy testing. The United Nations Human Rights Committee has called on States to include the right to privacy in their legal codes, although few have.

Local Novartis management argued that pregnancy testing was an accepted practice in the country as directly represented by the government-owned facility and management of the zone, insisting that a change would jeopardize the relationship with the plant that had demonstrated acceptable overall standards for labor practices over an extended period of time and was a model plant for its environment (as confirmed by an on-site monitoring visit). Beyond the pregnancy testing issue, insisting on a change of policy could have a negative effect across a broad range of other interactions between Novartis and the government.

This issue found its way to the Novartis Executive Committee, consisting of the top eight executives in the company. The Committee with Vasella, as chairman, judged that the practice was, indeed, discriminatory and would be immediately stopped. The current policy is that pregnancy testing is offered cost-free as part of the application physical, but is not a condition of employment.
Present Status

In a pharmaceutical company, long-term performance depends upon the success of research and development as well as the marketing of useful and safe pharmaceutical products, plus the managerial acumen to achieve the financial results needed to sustain that research and development. For Novartis, the spirit of the Global Compact becomes a strategic component of sustainable corporate development as it is interwoven with the business model and cuts across the economic, social, and environmental aspects of decision making. These principles, particularized in the Corporate Citizenship Policy, help the firm meet the expectations of society so critical for its long-term development. Implementation depends upon the ability to continually refine the process of measuring, setting, and achieving targets for the human rights dimension of Novartis and third-party operations within an overall vision; the capability of line management to integrate corporate citizenship into the economic business model, and to settle tensions between competing objectives as they arise; the credibility of the process as perceived by internal and external stakeholders as well as the broader society.

Novartis is midstride in bringing its strategy of long-term corporate sustainability to fruition. Top management has operationalized the principles of the global Compact as evidenced by the above examples reflecting the uniqueness of the pharmaceutical discovery and distribution of drugs, and as a multinational subcontracting its production to third parties. These outcomes are measurable in terms of drugs discovered, patients served, and rights protected. Still, these are senior management initiatives. The goal of integrating Corporate Citizenship into the mindset of the operating manager remains a work in process. The question is whether the process of implementation and compliance is up to the challenge. It promises to be a more daunting task than either the Health, Safety, and Environment success or the Code of Conduct.

The vision is clear as is the determination of senior management. The publication of guidelines in June 2002 initiated the system of standards and accountability, a system that appears capable of evolving toward fulfilling the vision. Credibility is an open question. Internal credibility will grow with the implementation process. Based on experience, Novartis management is convinced their policy of early, open dialogue with
external stakeholders will lead to better decisions and to credibility. Verification will be part of the social as well as the environmental process. Formal, external monitoring has yet to be introduced. This is a continuing process. As Vasella notes, “The policy incorporates our aspirations – recognizing that we still have some areas where we do not yet live up to the policy.”
Annex 1

PEOPLE INTERVIEWED

Urs Baerlocher
Head, Legal and General Affairs
Novartis International AG

Terry Barnett
President and Chief Executive Officer
Novartis Corporation (United States)

Martin Ch. Batzer
Head, Pharma Affairs
Novartis Pharma AG

Jeff Benjamin
Vice President
   and Deputy General Counsel
Novartis Corporation (United States)

Kaspar Eigenmann, Ph.D.
Head, Corporate Health,
   Safety, and Environment
Novartis International AG

David Epstein
President, Novartis Oncology
Novartis Pharma AG
(telephone)

Johannes M. Frey
Head, Corporate Affairs
Novartis International AG

Paul L. Herrling, Ph.D.
Head, Global Research
Professor for Drug Discovery Science
University of Basel
Novartis Pharma AG

Julie M. Kane
Vice President
Novartis Corporation (United States)

Maria Lourdes Lasquite
Stakeholder Relation Manager, P.R.
Novartis International AG

Klaus M. Leisinger, Ph.D.
Executive Director
Novartis Foundation for Sustainable Development

Erwin Schillinger
Head, International Coordination
Novartis International AG

Karin Schmitt
Head, Social Development
Novartis Foundation for Sustainable Development

Andreas Seiter, M.D.
Head, Stakeholder Relations
Stakeholder Rel/Editing Office
Novartis International AG

Gloria Stone
Director, Global Public Relations,
Novartis Oncology
Novartis Pharma AG
(telephone)

Peter Tobler
Compliance Officer
International Coordination
Novartis International AG

Daniel Vasella, M.D.
Chief Executive Officer and Chairman
Novartis International AG

Norman C. Walker
Head, Human Resources
Novartis International AG

Dieter H. Wissler
Head, Corporate Communication
Novartis International AG
Notes to table

a. Agriculture is not included because it was divested in 2000.

b. Operating Income/Sales.

c. Healthcare operating margins.


e. Novartis financial leverage is substantially below the average for the industry.

For Novartis, Debt/Total Assets averaged 5.8% from 1996-2000, compared to an industry average of 9.5%.

### Appendix A  |  Novartis AG Performance Data

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<tr>
<td>Revenues (CHF billion)</td>
<td>20.0</td>
<td>23.1</td>
<td>23.2</td>
<td>25.2</td>
<td>29.1</td>
<td>32.0</td>
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<td>Research and Development (CHF billion)</td>
<td>3.1</td>
<td>3.7</td>
<td>3.2</td>
<td>3.5</td>
<td>4.0</td>
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<td>Overall Operating Margins</td>
<td>18.8%</td>
<td>21.8%</td>
<td>24.8%</td>
<td>25.1%</td>
<td>23.1%</td>
<td>22.7%</td>
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<tr>
<td>Pharmaceutical Operating Margins</td>
<td>24.6%(c)</td>
<td>27.9%(c)</td>
<td>31.0%</td>
<td>30.6%</td>
<td>29.8%</td>
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<td>Industry</td>
<td>30.2%</td>
<td>28.5%</td>
<td>29.1%</td>
<td>36.3%</td>
<td>27.9%</td>
<td>24.1%</td>
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<tr>
<td>Return on Equity</td>
<td>16.7%</td>
<td>20.7%</td>
<td>20.7%</td>
<td>19.4%</td>
<td>17.6%</td>
<td>17.8%</td>
</tr>
<tr>
<td>Industry</td>
<td>27.3%</td>
<td>24.5%</td>
<td>32.8%</td>
<td>29.2%</td>
<td>30.2%</td>
<td>23.4%</td>
</tr>
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### Business Sectors

| Pharmaceuticals | 58.0% | 61.0% | 62.5%(b) | 60.6% | 62.3% | 63.0 |
| Generics | 6.0% | 6.3% | 6.6% | 7.2% | 6.8% | 7.6% |
| Consumer Health | 26.0%(d) | 22.7%(d) | 20.5% | 22.1% | 22.4% | 20.8% |
| CIBA Vision | 6.0% | 6.1% | 6.5% | 6.4% | 4.8% | 5.6% |
| Animal Health | 4.0% | 3.9% | 3.9% | 3.7% | 3.7% | 3.0% |

### Financial Market Assessment

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<th>Price/Earnings Ratios</th>
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<tr>
<td>Novartis Hi</td>
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<td>Novartis Lo</td>
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<tr>
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<th>Market/Book Ratios</th>
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<td>Novartis</td>
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<td>Industry</td>
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Ethical principles: A tool for empowerment – Spedpol case study

BOLESŁAW ROK

L. KOZMINSKI ACADEMY OF ENTREPRENEURSHIP

“All the time we improve what we are doing.”

Abstract

SPEDPOL IS A PEOPLE-ORIENTED ORGANISATION that aspires to high quality operations based on ethical values. The objective of the company is continuous improvement in the quality of services offered. Spedpol is the leader of logistics in Poland. In Spedpol’s operations, ethics is regarded as an important component of the company’s long-term market success. During the process described in this case study, Spedpol’s project team worked with employees to design the company’s ethical code, which defines the principles of cooperation within the company, the attitude towards customers, competitors, the surrounding environment, and other important values.

Spedpol’s ethical programme is a combined top-down and bottom-up approach. A key feature of this approach is a distinctive procedure for the involvement of employees and vehicle drivers in the formulation of ethical

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11 This case study was peer reviewed by Professor Wojciech Gasparski of the Center for Business Ethics at the L. Kozminski Academy of Entrepreneurship and Eleanor O’Higgins of the Smurfit Business School at University College, Dublin.
principles and values, and the implementation and integration of these in daily practice. The resultant impact on overall performance has been marked. Within Spedpol, the general idea behind this process is to guarantee respect for dignity and autonomy across different stakeholder groups: employees, vehicle drivers, suppliers and customers. It is a manifestation of the company’s commitment to according the highest respect for the protection of human rights – the essence of the first of the nine Global Compact principles.

Introduction

Company profile

Spedpol is a Polish logistics operator. The company operates within the Schenker network, which is owned by Stinnes and is Europe's biggest forwarding-logistic group. This means that Spedpol, as part of a global system, also provides services to customers operating worldwide. The Spedpol Head Office, seated in Warsaw, is a coordinating unit for all the regions (called “districts”) in which the company operates. A system of daily truck connections links Spedpol’s network of terminals.

Spedpol’s shareholders are: (69.5%) BTL (the Bilspedition Transport & Logistics AB), which is part of the Schenker Group; (29.6%) the State Treasury of Poland; and (0.9%) private persons. Spedpol has been operating as a limited liability company since March 1991. The company employs 915 employees and approximately 1,800 vehicle drivers, who are ‘outsourced’ as independent operators. Janusz Gorski is President of the Management Board. The company’s web address is: www.spedpol.com.pl.

Spedpol has divided Poland into 17 districts, each of which has a cross-docking terminal that is at the core of the system’s operations. These terminals handle the flow of goods through a network of direct long-haul connections. Orders from customers in the districts are sent to the terminal. After the order is accepted, the goods are collected and delivered to the terminal where the consignments are sorted according to the direction in which they are going, and are then placed in relational areas. Long-haul vehicles transport package freight between the regional terminals and travel on regular routes according to a set timetable. At the destination terminal, these vehicles are unloaded and the consignments are
sorted and placed in the individual relational areas. The consignments are then delivered to the recipients by vehicles servicing the relevant district.

Spedpol specialises in flow logistics. This means that, after being delivered to Spedpol’s terminals, products are not stored but rather are sorted immediately and divided into smaller lots. The company transports more than 20,000 consignments daily by truck, using almost 200 direct connections between computer-integrated terminals. All consignments are delivered the following day. All data about the consignments and their movements are registered in the Spedpol IT system called “Softsped”. Information about any difficulties in fulfilling an order is sent electronically to interested parties in the supply chain. Information about the status of the consignment is also available on customer-dedicated web pages.

Position in the market
Spedpol financial results and its receipt of many awards in a range of fields attest to its position as a leader in the logistics services industry in Poland. In the last few years, Spedpol’s financial performance has been excellent. Sales revenue for the year 2000 was US$63 million, 20% higher than the previous year. For 2001, sales revenue was US$73 million, the fifth highest in Poland in the transport-spedition-logistics (TSL) sector. Last year, Spedpol carried about 4,570,000 shipments. Sales revenue for the year 2002 is expected to be US$90 million. Spedpol’s major competitors in the TSL sector are Raben (a Dutch company) and Servisco (owned by Deutsche Post Group). Spedpol has the highest growth rate in its sector and the highest level of profitability. In the independent ratings published every year in Poland, Spedpol has the highest rank (ex aequo with three other companies) for qualitative standards for customer service (2001).

In recognition of it being one of the first in the Polish market to offer clients advanced IT solutions on the Internet, Spedpol has received a number of related awards. In 2001, Spedpol was selected the best-computerised company in the category of “transport, forwarding, postal and courier services and press distribution” in the rankings organised by Teleinfo 100. Spedpol also received “The Leader of the Polish Business 2000” award for its efficient, modern management system, maintaining high economic indices, and development of services and implementation of innovative solutions.
Five key company decision makers are featured in this case. They are:

- Janusz Gorski, Spedpol’s CEO
- Stefan Bulaszewski, Spedpol’s Personnel Policy Manager
- Anna Dunin-Brzezinska, Human Resources Department
- Krzysztof Izdebski, Marketing Department, also an internal trainer
- Zbigniew Kielawski, The President of the Solidarity Trade Union in Spedpol

Spedpol is a service company. With the development of outsourcing logistic services in Poland, the competition between logistics firms became more and more intense. The company’s objective is continuous improvement in the quality of services offered. Its system of quality management, consistent with the ISO 9002 norm, covers all its services and terminals. However, ISO 9002 is of little value unless it is supported by a change in company ethics and culture. The requirements in ISO standards are of a general nature: they define the basic conditions for a quality system. They do not ensure perfect end-products or services.

Nowadays, the application of quality standards to service provision – where human resources management is more important than in production – is more common and its value is better recognised. The entire personnel should be involved in creating and developing the organisation. The impact of good employee morale on the quality of customer service is now well known. Creating a positive work environment for employees has therefore become one of the key objectives of contemporary business practice. The method of system implementation at Spedpol was thus rooted in building employee personal motivation, cooperation and communication with vehicle drivers. Support for innovation improves logistics firms’ operations by encouraging employee inventiveness and initiative.

It was Bulaszewski’s idea to base Spedpol’s human resources management system on core ethical values. He had no experience in the establishment of ethics codes and received no support from external consultants. He taught himself from the literature on value management. Now,
based on his own experiences, he can speak fluently about ethical business, fair competition, partnership with customers, and competitive advantage through ethical image.

One should bear in mind that much of the work on ethical best practices has occurred for a variety of reasons, not least because acting responsibly makes economic sense. Companies around the world increasingly understand that reaching their business objectives can be compatible with business ethics. For this reason, values like honesty, trust and respect are included in many companies’ policies and procedures. Things are different in transitional economies, like Poland. Local cultures affect the way employees and customers expect companies to behave. Due to the change of political regime in Poland in 1989, the requisite basis for a market economy was achieved at the beginning of the transformation process. There is, however, still a long way to go before reaching the maturity phase. Business people in Poland tend to adopt a narrow view of their responsibilities. Ethics codes and ethical programmes are, unfortunately, almost completely unknown within Polish corporate culture.

Nevertheless, Spedpol was in a good position because of the strong support received from the Scandinavian corporate culture of its parent company. Janusz Gorski, Spedpol’s CEO, explains: “BTL, which is a main shareholder of Spedpol, is a Swedish company. They brought technological know-how based on a specific corporate culture: quality, effectiveness, integrity, punctuality, reliability, and partnerships. In the beginning, it was not well understood in our company. But after a few years it became our own standard. We call it: “friendly management.” We are trying to appreciate our employees’ achievements and work together on the shortcomings. Well-defined and written down values in the highly competitive logistics market can create an integrated and effective team of 3,000 people. It is our unique value-added. The success of each employee depends on cooperation with others. A code of ethics is fundamental for employee satisfaction and also for customer and shareholder satisfaction. It can help our company, our partners and customers to work together, with values openly shared and people working toward a common goal. By clearly stating what constitutes ethical behaviour, employees can make decisions that are in accordance with Spedpol’s goals and strategy.”

Stefan Bulaszewski, Spedpol’s Personnel Policy Manager, is the head of the project team established to manage the entire ethical programme. He says: “In speaking about a quality system, its future evolution and the adjustment of procedures to constantly evolving customer needs, one cannot ignore the role of ethical standards. At Spedpol, we believe that dedicated, cheerful staff who do their job with enthusiasm will be more open and will try harder to meet our customers’ demands. And we have almost 3,000 people – including vehicle drivers – working here.”

Ethics codes and ethical programmes are, unfortunately, almost completely unknown within Polish corporate culture. Nevertheless, Spedpol was in a good position because of the strong support received from the Scandinavian corporate culture of its parent company.
Building good relationships with vehicle drivers is also important for company strategy. Spedpol works with 1,800 to 2,000 self-employed vehicle drivers – a typical approach in the logistics services industry. By outsourcing, an organisation gives up certain kinds of activity and assigns these to external contractors. The majority of Spedpol's vehicle drivers have direct contact with customers. Sustained improvement in customer service, and the quality of services offered generally, is dependent on the personal integrity of vehicle drivers. It is therefore necessary to improve their qualifications and promote ethical behaviour through continual education. Participation by vehicle drivers in the ethical programme can create a better quality of customer service.

**Towards the code of ethics**

Spedpol's operating strategy is based on a partnership model, both within the firm and in external relationships. Good ethics result from partnerships and lead to long-term benefits. In Spedpol's daily operations, ethics is regarded as a key factor in Spedpol's long-term market success. Different groups of stakeholders are equally important to the company as it wishes to be perceived as a social, people-oriented organisation, which cares for high quality operations based on ethical values. Each stakeholder group has to be conscious of the other groups' interests, expectations and needs.

Spedpol offered an ongoing ethics program to teach employees about its core values and to provide them with guidelines as to what behaviour is acceptable in ethically sensitive areas, such as how to build partnerships to better meet customers needs. Employees designed their own ethical code, which defines the principles of cooperation within the company, with customers and suppliers; the attitude towards competitors and the surrounding environment; and other important values. While codes of ethics may be valuable for every company, what is unique about this case is the procedure for involving employees and vehicle drivers in the process of formulating ethical principles/values and their integration in daily practice. This is reflected in training and empowerment, organisational change and impact on overall performance.
At the beginning of 2000, discussions started among managers and other employees. The main concern was to deal with some difficult, controversial situations in the company. There were reported cases of bribery, misunderstanding, unfriendly behaviour of employees toward vehicle drivers, unnecessary false loyalty, small robberies, disclosure of confidential information, and shady dealings with customers.

After one of the meetings devoted to these cases, top managers decided to start an ethical programme that had been proposed by Mr. Bulaszewski. This group was convinced that ethical rules could be valuable only if the whole process was based on real empowerment. Establishment of the code of ethics should be top managers’ initiative, but development of the process should be inclusive and engage every employee and vehicle driver. In other words, it was decided that the ethical programme should be the result of a combined top-down and bottom-up approach. The starting point was a selection of keywords seen as important to the company’s ethical performance: honesty, openness, professionalism, development and innovation.

In June 2000, a project team was formed and it began to prepare a set of 34 simple questions concerning behaviour in five different areas: customers, employees, competitors, suppliers, social and natural environment. They decided that these areas are the most important for company performance in terms of the quality of operations, both within the company and in external relations. This team was diverse with respect to occupation and region, and it was formed on a voluntary basis, with the involvement of trade unions and without top management’s participation.

The second step was a whole chain of small group discussions and workshops in every region of the company’s operations. Over a six week period, there were more than 50 parallel meetings, a total of 1,400 participants. In every discussion, people were asked to write down their answers to all the questions. In October 2000, the team collected the responses and, using a “80% consensus method,” prepared a first draft of the code of ethics. The main concern was to pick the most relevant issues for the company, which were also supported by the majority of participants in the process. The real task for the team was to decide on the level of complexity.
Box 1. Timetable for the project

9th of April 2000
Top management meeting, first discussion about the project.

8th – 9th of June 2000
The project was accepted by the Board, decision on the team participants was taken, main values were declared.

16th of June 2000
First meeting of the project team, detailed decisions concerning the process and schedule were taken.

June – August 2000
The “marketing” activities were going on inside the company.

29th of August 2000
A set of questions concerning values and real everyday situations was prepared by the team.

4th of September – 6th of October 2000
Local workshops were organised with the participation of the team’s leaders.

19th – 20th of October 2000
Editing, by project team with the participation of Spedpol’s CEO, of the ethical principles based on local workshops’ conclusions.

27th of October 2000
The Board approved the document “Ethical Principles.”

December 2000
Printed version was given to every employee and vehicle driver.
Speaking about the process, Bulaszewski observes: “We had hundreds of concrete situations written down by participants and we had a really hot discussion among team members on every issue. In the end we decided to use common sense as the main criterion. On that basis, we selected general rules covering more specific cases. We believe that each of us has our own ‘magnetic north’ on ethical questions and the main goal of the company code of ethics is to acknowledge that there is ‘a spirit’ of the company and trust towards its employees. Of course, it was possible to create general ethical rules without putting a lot of effort into the whole process. But the essence of this project was to go into discussions, reaching everyone with ethical dilemmas in order to take corporate culture to a much higher level.”

In formulating the ethical principles, the team focused on procedures and rules already in use at the company, but the subject matter of the principles was determined by group expectations. As Krzysztof Izdebski, one of the managers from Nadarzyn terminal, who is also an internal trainer, explains: “We didn’t want to have a top-down product only. These rules are similar to those in place before the publication of the code of ethics. We didn’t want to impose these rules on employees; we were trying to discuss real situations, to systematise our behaviour on the basis of general rules. The company is a living organism. The rules are like the immune system. Prevention is always more important and more safe than medical treatment.”

Ethical rules can influence and shape the competitive advantage of a company only when people listen to each other. At Spedpol, the discussions on ethical rules attracted a lot of attention and confirmed the need for cooperation among different groups of employees concerning performance inside and outside the company.

At the end of 2000, the code of ethics was published and given to every employee. Spedpol’s Ethical Principles cover the main areas of the Global Compact principles, that is, labour, human rights, and environment.

For some companies, preparing a code of ethics is the end of the process. This was not the case for Spedpol. Computer specialists say that “structural chaos translated into a computer system generates even greater chaos.” The same could be said about ethics. A dysfunctional corporate culture, supplemented by a written ethical code, generates an even more

“We didn’t know which solution was the best and then somebody said, ‘let’s read the rules in our code of ethics.’ For us, it is a kind of ethical compass to turn to when making decisions.”

The company’s ethical code is a set of rules of conduct governing relations with customers, employees, suppliers and competitors, and the social and natural environment.
Box 2. Excerpts from Spedpol's Ethical Principles corresponding to the nine principles of the UN Global Compact

1. “As an employer, Spedpol ensures the conditions under which everybody is guaranteed respect for their dignity and autonomy.”

2. “At Spedpol, safe and friendly work conditions are the right of all employees.”

3. “As an employer, Spedpol encourages its employees to freely and directly express their opinions, simultaneously ensuring them necessary facilities and opportunities.”

4. Not applicable for the labour conditions in the best companies in Poland.

5. Not applicable for the labour conditions in the best companies in Poland.

6. “At Spedpol, it is impermissible to discriminate on the grounds of origin, sex, belief or organisational affiliation.”

7. “We try to produce as little waste as possible. We try to use materials that are least harmful to the natural environment.”

8. “We use electricity in a rational way. We turn off unnecessary energy sources. We save water. We take care of tightness of the sewage system as well as sewage treatment. We make sure that our carriers use energy efficient trucks and not ones that are harmful for the environment.”

9. “We (...) implement innovative solutions in the field of environmental protection. Protecting the natural environment, we apply only friendly technologies and we do not violate the applicable environmental protection norms.”
ineffectual corporate culture. There are initiatives in companies all over
the world where the code of ethics is only a top-down exercise prepared
by external consultants or imposed by top management. This kind of
approach does not work even where there is a formal instruction that the
core values from the code of ethics are to be integrated into decision-
making processes and reflected in corporate strategy.

First opinions: success or failure?

For Spedpol, a code of ethics was the point of departure. As Anna Dunin-
Brzezinska from the Human Resources Department says: “For us, it is a
living document. We discovered that even general rules are helpful in
everyday practice. During the recruitment process we have a special test
for candidates. Part of the test is always devoted to different possible ethi-
cal dilemmas, for example: the acceptance of gifts from our customers. I
remember that a few weeks ago there was a candidate who completely
missed the problem. We decided that he was not a proper candidate for
our company. Another situation, which I remember, occurred during a
kind of discussion on a specific issue connected to our service: We didn’t
know which solution was the best and then somebody said, ‘let’s read the
rules in our code of ethics.’ For us, it is a kind of ethical compass to turn
to when making decisions.”

The company’s ethical code is a set of rules of conduct governing
relations with customers, employees, suppliers and competitors, and the
social and natural environment (see the Appendix for the full text).
Reliable information and fair communication are every partner’s obliga-
tion. Spedpol believes that using ethical reasoning strengthens their
internal and external relationships. A lot has changed in Poland in
recent years with respect to customer preferences. In the past, the
choice of service depended only on price. Now, the quality of service is
paramount. This trend motivated Spedpol’s implementation of a quality
management system and ethical code. It should lead to better satisfac-
tion of customer requirements. This is the reason why Spedpol promotes
ethical behaviour even if the business environment in Poland is not yet
very mature.
Corporate culture will be the main driver of competitive advantage in the future. Business strategies will be most effective in a culture where information is not connected to power, sharing information is regarded as an ethical value, and there is high consciousness of the company’s ethical image and the need to keep promises.

Promoting ethical behaviour among different partners requires more than merely talking about ethical rules. Spedpol’s business partners and social partners appreciate the company’s organisational culture. As Ryszard Petrykowski, Logistics Manager at Wuerth Polska Ltd, observes: “We have worked with Spedpol for ten years now. For me, it is a real partnership based on mutual trust, openness and shared knowledge. We understand each other very well and it is a good basis for continuous innovation.”

Similar opinions can be heard from other social partners and various non-governmental organisations. For example, Magdalena Jurek from Youth Academy in Warsaw says: “We organised a special workshop for young people on entrepreneurship in the field of social activity. Spedpol, as a good corporate citizen, supported the whole workshop. All the participants had the opportunity to learn how valuable not-for-profit projects could be implemented. For me, Spedpol really is a socially sensitive company.”

In the same vein, Katarzyna Kowalska, who works for “Success Plan 2002” – a competition for students and SMEs organised every year by McKinsey&Co, Enterprise Investors and the main Polish newspaper “Rzeczpospolita” – has this to say about Spedpol’s role in the competition: “Spedpol’s role in our project was to deliver all relevant papers to every business school and local student organisation in Poland. They did it perfectly, with lightning speed. We had over 2,000 participants in our competition. I really appreciate Spedpol’s input.”

The focus on ethics is also popular with those inside the company. For example, Michal Pawluk from Spedpol’s terminal in the city of Nadarzyn states that: “Our corporate culture is now on the highest level. It is a culture of partnerships not individualism. I was dreaming of working in this company during my studies. I have a lot of friends in other companies and I know that I’d only like to work here. My boss is like an ethical guru for me. I can talk to him on every issue. Of course, work is hard, sometimes I have to stay after hours, but I feel that it is good for the company as well as for my professional development.”
However, there are others in the company who are not as optimistic. Tadeusz Leszczynski, Manager for Health and Safety, observes that: “The code of ethics is not well established yet. We are living in a country where ethical rules are not common. Ethical or unethical behaviour does not exist in a vacuum, but is part of a broader culture that develops over time. We were trying to put everything in our code, but it is impossible. Concerning customers we have a statement that ‘we are responsible for the property entrusted by the customers, we are guided by unbroken honesty, behaving in accordance with concluded contracts, regulations of the transportation law and procedures valid at Spedpol’. But what can we do if the customers are not honest and cheating us? We have special rules for dangerous consignments (ADR) and we have to sign up to them. We should expect responsible behaviour from our customers, but it is not always the case. I can’t imagine that one could talk about ethical behaviour without taking into account the health and safety of our employees and vehicle drivers.”

Another reservation about the code is expressed by Arkadiusz Bloch, a young person who has just completed his studies and has been working at Spedpol for only a few months. He is not convinced that ethical principles are useful in his work: “These rules are very general. They are something like everyman’s rules. I’d like them to be more concrete. Just a few days ago, I had a phone conversation with a dissatisfied customer. I knew I should have been polite and calm. In fact, I’d like to evaluate my behaviour. There is nothing specific, concerning such a situation, in our code of ethics. I think it is possible to establish a small group of people and discuss this case. I’d like to learn more.”

Iwona Maksymiuk, Quality Co-ordinator at the Nadarzyn terminal, has a somewhat different opinion: “It is true that we have a culture of cooperation and openness, but some people demonstrate a different attitude. I know that one of the employees working here has to be fired. Everybody knows that the decision was taken, but nobody is going to inform the woman concerned. It is not a matter of discrimination. As a woman, I can confirm that this is not the case. In our code, we have a statement that ‘at Spedpol it is impermissible to discriminate on the grounds of origin, sex, belief or organisational affiliation.’ And it is true. But more respect for others is needed.”
In fact, no one is complaining about gender discrimination at the company: Spedpol’s workforce is composed of 407 women and 508 men, and this balance compares well with the country average.

Zbigniew Kielawski, President of the Solidarity Trade Union at Spedpol, is from the Krakow city terminal. He is convinced that the code of ethics is essential to the well-balanced development of the company. He says: “Our expectation is that these rules will be obeyed for the sake of the company as well as its employees. We had our representatives on every level of this process of establishing rules. The code of ethics came to life after really hot discussions and its implementation is the real challenge for all of us. The rules should be consistent with everyday practice. In this case, they should improve personal relationships between employers, employees and trade unionists.”

Next steps

Spedpol is now working on improving the quality of dialogue inside and outside the company, on setting a framework for better cooperation with vehicle drivers, and on raising vehicle drivers’ awareness of ethical policy to better identify warning signs that may indicate potential ethical exposure. The company knows that the code of ethics, as a set of fundamental rules, could be a point of departure for a well-prepared multi-level system of ethical behaviour. This is why ongoing ethics training for every employee is crucial. It will be beneficial for the company, its employees, vehicle drivers, customers, business and social partners.

Given the nature of its business, vehicle drivers are a special priority for Spedpol. Accordingly, Spedpol’s management system requires that procedures for selection (recruitment) and appraisal of vehicle drivers be interwoven into its business structure. Although they are often independent contractors, vehicle drivers are, in a number of ways, treated as if they were key employees. Due to their strategic importance, they should be given a number of training courses. This requires development of a well-designed and coherent training plan. Regular appraisal improves communication between dispatchers and vehicle drivers, and contributes to effective resolution of conflicts. It can be based on inclusion and participation by creating
the conditions that allow vehicle drivers to contribute all they can, including supporting them in the ongoing process of personal development. What has emerged as critically important for the long-term success of the project is the need to provide the classic win-win situation by demonstrating how good rules, if managed according to the ethical principles, can generate both positive benefits for vehicle drivers and new customers.

Krzysztof Izdebski, an internal trainer, has started to run training for drivers. He notes: “We are trying to be very concrete during our meetings. We are talking also about incidents of corruption, robbery and all these negative findings. We have a special framework prepared only for training in these groups, and it is working. They really understand why it is so important. We don’t want to impose the rules, but we’re trying to take care of the process of converting. It is much better now.”

Are they? One of Spedpol’s terminals is located in old buildings in the city of Katowice. This location is inappropriate for local citizens as well as for vehicle drivers, especially in light of the fast growth of the company. Local citizens claiming the right to a safe and noise-free environment decided to force the company to change the location of its everyday operations. The location is also inconvenient for the company’s vehicle drivers, who have difficulty manoeuvring in the tight streets, especially if they know that their work creates tension among local inhabitants. Wieslaw Glinka, the General Manager of Spedpol in Katowice is convinced that the company has to move from there: “We know that for local citizens it is hard to live in this neighbourhood. We already promised to reduce our activity in this terminal by 30% and to use a temporary terminal in another location, but we have to build a new terminal outside the city as quickly as possible. Unfortunately it will take time and money.”

Local newspaper reports show that residents have already reached their limit. In Spedpol’s Ethical Principles there is a statement: “We remain in harmony with local communities.” This is not always the case. There is, therefore, an unsolved problem for Spedpol in Katowice.

The company is aware of the needs and expectations of different groups, but it needs to act in a way that creates win-win solutions. The availability of these solutions depends greatly upon the extent to which ethical behaviour can be successfully linked with economic policies, in particular, with the bottom line. This, in turn, requires that ethical policy

“The environment will be changing, demands will be growing and ethical values will remain unchanged. We should take special care to make sure that the words written down in this document correspond to our everyday activities.”

Janusz Gorski, CEO
be considered an integral part of business activity, of the company’s competitive advantage. Mr. Bulaszewski observes (optimistically): “It is not so bad with our managers, employees and vehicle drivers concerning ethical behaviour. But this company was established in the process of privatisation of the older state-owned company. We had a mosaic of different pictures, different languages, and different cultures coming from different backgrounds. Our idea is a kind of unification around the common rules. It is a long-term process.”

In the middle of 2002, the project team decided to move to a higher level of implementation. They knew that, on some views, a code of ethics is more visible outside a company then within. Especially in some units, much work needs to be done to understand the cause of lingering unethical behaviour. The team therefore decided to strengthen its efforts at education, including through an intranet (for example, through “frequently asked questions”) and a company journal “Echa Spedpolu” (writing on ethical best practice).

Another idea, discussed at the team meeting, was to establish an Ethics Committee, composed of ethics officers from every region. The main responsibility of each Ethical Officer could be giving “a helping hand,” when needed, via an “ethical hot line” – his/her mobile telephone. Team members suggested that the post of Ethical Officer in each region should be an elected one, and that it should be given to a trustworthy person. Ethical Officers should be committed, credible, and willing to “walk the talk” of corporate values. An Ethics Committee, consisting of Ethical Officers, should monitor the implementation of ethical rules, and should be actively engaged in refining the ethical values, co-ordinating the whole process of education and clarification.

This idea was proposed at the top management meeting, but did not receive enough support. Trade union leaders and some managers were afraid that this kind of committee could be seen as an additional formal inspection in the non clear-cut field of human relations. Managers were of the opinion that, at this stage of company development, instead of control, it is necessary to empower people to behave better. Monitoring the ethical principles is the biggest unsolved problem for the company because it is a very sensitive process. Another remaining challenge is ongoing training for all employees.
The measurable impacts

At the beginning of 2002, after collecting different points of view from various discussions, the company’s Board decided to look for measurable impacts of the actions taken. One of the priorities for Spedpol was to marshal employees around common objectives, especially issues pertaining to company development; Spedpol wants to maintain employee motivation levels. Another Spedpol employee opinion survey was carried out, 14 months after the first one. It was conducted in cooperation with an external partner that offered a survey methodology allowing for international references and comparisons to be made. The survey was performed by the CASE company (Consumer Attitude & Social Enquiry), which uses the licensed TRI*M methodology. TRI*M, offered by the international network company NFO Worldwide, is a tool for measuring stakeholder satisfaction and customer retention management.

The survey allowed the Board to see Spedpol against the background of companies in other countries; questions used in the TRI*M indexes (a single indicator measurement of employee involvement) were identical across all companies in which the survey was conducted. The Spedpol TRI*M index was 71, whereas the average TRI*M value for European companies in 1998-2001 was 60 (the average for USA is 57). This means that Spedpol is a community of people whose involvement in their work and in their company’s issues is substantially greater than average.

Similar favourable results, in comparison with international data, were found among the various employee groups: around a quarter of Spedpol employees (24%) are the company’s “driving force” – persons who are satisfied and strongly involved. In this respect, Spedpol performed 3 percentage points better than the European average. The number of persons at the other end of the spectrum, i.e. with low level of satisfaction and uninvolved, so called “detached,” was well below the European average (37%), but still pretty high – 21%.

For the first time, in this survey, Spedpol had the opportunity to ask employees questions about the code of ethics. The first question was simple: Do you think that ethical rules are obeyed in the company? 20% of employees were convinced “yes,” 53% selected “rather yes,” 9% “rather no,” 3% chose “not at all,” and 15% didn’t know or didn’t respond. There
were significant differences across company units. For example, in the city of Lublin and Zielona Gora, positive responses were obtained from 85% of employees, and, in the city of Gdynia, 9% selected “not at all.”

Another question in the survey queried “not at all” respondents about their reasons. More than 50% of them didn’t want to answer. Another question was: Do we need the code of ethics? The response was clear: 91% of employees said “yes.”

The results show that there is a strong and responsible “Spedpol community” that appreciates and respects the company. The most important motivating factors for Spedpol employees are: independence, diversity of work, and a good team atmosphere. They consider those aspects to be important and value them highly. This means that they appreciate the core values of the company, like according the highest respect for the protection of human rights, dignity and autonomy. Compared with the survey conducted 14 months earlier – about a dozen of the same questions were answered slightly more positively. The General Satisfaction Index improved for most of the company’s units and in only two units was there a slight decrease in the level of satisfaction.

Continuous improvement

The survey results also show that action should be undertaken to obtain further implementation of the ethical code. Continuous improvement of skills is an important element of Spedpol’s corporate culture, as are Spedpol’s ethical rules. Members of the project team should take more steps to raise awareness of the ethical guidelines in the field by, for example, organising ongoing training and support on a day-to-day basis. Such actions could help the company achieve a further improved organisational culture. A sound code of ethics gives a company’s image a solid foundation, but implementation is crucial. Training programmes can empower employees in every region to make smart decisions in new situations and help their company develop its competitive advantage.

Spedpol’s vision is to become customers’ preferred logistics partner. The strong leadership of Janusz Gorski, CEO, and Stefan Bulaszewski, Personnel Policy Manager, is based on the constant empowerment of
employees. The ethical policy, linked with quality management and human resources management in Spedpol's operations, is a crucial factor in Spedpol’s long-term market success. One of its public documents states:

“Ethical business is a partnership approach based on the mutual trust between suppliers and customers. This approach is a necessity for each company that intends to be a market leader in the long-term. It pays to be ethical, but it is not a sufficient condition. Corporate culture must be based on trust and openness.”

Most important in Spedpol’s approach is the innovative procedure for involving employees and ‘outsourced’ vehicle drivers in the process of formulating ethical principles. Full implementation in the daily practice of the company remains a challenge, but the best driver of the project team’s commitment is the results obtained thus far – especially the impact on overall company performance. It is a continuous improvement process, which could be affirmed and reinforced by ongoing research within the company. Consistent with the Global Compact principles, Spedpol aims to create a culture based on the highest respect for the protection of human rights, including by respecting the dignity and autonomy of its various stakeholders groups. As Janusz Gorski, CEO, summarises:

“Spedpol’s ethical principles are another step in our development. Their strength lies in the fact that they were created as a result of cooperation by employee groups from all over Poland. Observing the principles is necessary for accomplishment of the vision to become the best logistics partner for our customers. The wisdom in the principles allows development and adaptation to changing market demands.”

In the words of Stefan Bulaszewski: “Every employee in the company, from the CEO down, makes decisions that affect how the public views Spedpol. That is the reason for our work on our code of ethics. Implementation of this code is a never-ending story. But we are committed to it forever.”
Appendix | Spedpol’s Ethical Principles (Translated from Polish)

Customers

• Our Customers are treated with the utmost care. We are accountable for delivering the highest quality services. We look for better and innovative solutions.

Honesty

• We are responsible for the property entrusted to us by our Customers; we are guided by unbroken honesty, behaving in accordance with the terms of concluded contracts, transportation regulations and current procedures at Spedpol.

• We take care of our Customers’ reputation and we maintain the confidentiality of information gained during co-operation.

• We present clearly the possibilities for co-operation. We do not promise what we cannot deliver.

• Even in the most minor of Customer contacts, we only provide correct information.

• In order to maintain good business relations with Customers, we may provide company gifts of reasonable value – never money – to customers. In all cases, we behave with moderation, doing it explicitly so that the Customers know that they are receiving a gift from the company and not from a particular employee.

Development of relations

• We treat relationships with Customers as long-term, aiming to building mutual trust. In co-operation with Customers we continue to look for improvement and simplification, informing them on a regular basis about each innovation in our systems.

• We respond to problems that arise as quickly as possible. We try to inform our Customers immediately about potential quality irregularities in the rendering of services. We listen to our Customers’ questions with attention, openness and friendliness, we advise them and search for the best solutions to the problem. We aim at avoiding potential shortcomings in the future.

Conflict of interests

• In Spedpol employee contacts with Customers, we avoid situations that may result in a conflict between one’s personal interests and Spedpol’s interest in co-operation with the Customer. Spedpol employee potential social relationships with Customers’ employees should not influence the terms of co-operation.
• Spedpol's employees may simultaneously work or render services for Customers but only if it is not in competition with Spedpol, it does not disturb the work of the team, professional confidentiality is not violated and it is not in conflict with Spedpol's interests.

• In conflict situations, we try to be objective, trying to find together solutions satisfying both parties.

**Protection of Spedpol's interests**

• In our contacts with Customers, we take care of their good reputation and Spedpol's interests. We observe information protection principles.

• We always try to meet expectations of our Customers unless they violate our market strategy, offend the law and procedures, and transgress Spedpol's Ethical Principles. In the case of a refusal to render a service, the Customer is informed about the reasons.

**Employees, drivers**

• In an atmosphere of openness and understanding, we develop such values as honesty, justice, and respecting of everybody's dignity.

**Spedpol towards employees**

• In its relations with employees, Spedpol is responsible for observing high ethical and legal standards, supporting professional development of employees and ensuring safe and adequate work conditions for them.

• As an employer, Spedpol ensures the conditions under which everybody is guaranteed respect for their dignity and autonomy.

• The life and health of employees, as ultimate values, are subject to particular protection. At Spedpol, safe and friendly work conditions are the right of all employees.

• As an employer, Spedpol should protect employee information. Superiors take care to respect secrets and other aspects of the personal welfare of their employees.

• At Spedpol, it is impermissible to discriminate on the grounds of origin, sex, belief or organisational affiliation.

• As an employer, Spedpol encourages its employees to freely and directly express their opinions, simultaneously ensuring them necessary facilities and opportunities.
• Employer-employee relationships at Spedpol are based on openness, partnership, mutual trust and clear principles of conduct. Orders given to employees should have explicit justification.

• Our employees have the right to correct and up-to-date information necessary for performing their duties as well as knowledge of facts and data about the company and plans for its development.

• Spedpol is involved in the development of its employees through support in increasing and expanding knowledge and skills connected with work. Training courses should be job-related. Employees are informed about accessible training courses in an explicit and comprehensive way. The principles for assigning positions in training courses and supporting other forms of education should be clear.

• Work evaluation for employees and drivers should be done on the basis of clearly defined criteria that are known both to the person under evaluation and the person conducting the evaluation. Public criticism and pointing out of mistakes is impermissible.

• In the course of recruitment, we avoid employing the members of employees’ families. A subordinate must not be related to a superior.

**Employees towards Spedpol**

• Employees are responsible for reaching their prescribed goals, increasing their own qualifications, adequate representation of the company, loyal behaviour, and observing Spedpol’s values, norms and regulations.

• Our aim is higher and higher quality of rendered services and quality of personal work.

• We are loyal towards Spedpol. We are conscious of co-responsibility and influence on company development. We look for optimal solutions to problems.

• We are liable for the information and company property entrusted to us and for their usage in accordance with assignment.

• We speak explicitly and without fear about the problems bothering us; instead of complaints we propose solutions.

• It is impermissible to use work at Spedpol to gain unauthorised personal benefits. We do not use contacts with Customers to benefit from preferential purchases; we do not derive material profits in connection with a function and position held, other than income and profits by means of an agreement concluded with our employer.

**Internal cooperation**

• We base our internal business contacts on professionalism and mutual kindness. Openness and meeting needs of co-workers
should be characteristic of co-operation between teams.

- We base relations between employees, teams etc. on respect, understanding, kindness and disinterestedness as well as common involvement and exchange of experiences serving Spedpol’s development. We accept that the company’s interest is superior to group or local interests.

- We remember that we are internal Customers of one another and thus we are obliged to observe professionalism and the mutual keeping of promises.

- Spedpol’s employees co-operate with one another. In situations when we compete with one another (e.g. the Spedpol’s League) we follow fair play principles. It is not acceptable to be dishonest, transfer one’s liability to others, cover up one’s own mistakes or violate existing procedures.

- We should not be indifferent to mistakes and negligence by other employees. We help them make up for a mistake made – in accordance with the interests and principles of the company. Together we analyse the reasons for mistakes, we look for solutions to eliminate them and co-operate in order to remove the consequences. When finding a mistake that may negatively affect our company's image, result in lower quality of rendered services or material loss we involve the relevant superior. We will not perform work in a hazardous manner threatening human life or health.

- We aspire to the conciliatory settling of disputes in an atmosphere of friendliness and respect for others’ opinions.

 Suppliers

- Our relationships with suppliers are based on long-term partnerships and honesty in business. We co-operate through the exchange of experience and searching for better and better solutions to obtain mutual benefits.

- We work with the best suppliers, basing our relationships on trust and partnership. Suppliers only have access to the information that is necessary for them to render services of the required high level.

- High personal and organisational culture is a characteristic feature of our co-operation with suppliers – this is the way we create Spedpol’s good image.
• Keeping in mind Spedpol’s welfare, we carefully determine the terms of co-operation, aspiring towards best pricing conditions and high quality products or services. All suppliers are treated on equal terms in accordance with accepted co-operation principles.

• Selection of a supplier is based on the merits of an offered product or services and fair principles of competitiveness. We avoid conflicts of interest; a party offering services or products to the company is not allowed to be involved in the selection of a supplier.

• We do not accept gifts from suppliers. We are guided by a sense of moderation and common sense and only accept company gifts that are not of substantial material value and only promote the supplier. It is absolutely forbidden to accept material benefits in the form of money.

Competitors

• We recognise fair competition as a natural factor facilitating development of our company and the market. We win our Customers by basing our marketing activities on the benefits of our business offer without questioning the reliability of competitors.

• We treat competitors as a stimulus for improvement of our services. Our professional attitude is characterised by respect expressed towards competitors, we understand the common interest of the industry and do not speak in negative terms about competitors.

• We use information about competitors, obtained in a legal manner, for internal use.

• We do not exchange information about prices with competitors, market share or any other information that would violate Spedpol's welfare or the Unfair Competition Law.

• In the case of a conflict of interest, when a member of an employee’s family works in a competitor company, Spedpol reserves the right to limit a given employee’s access to information, including moving them to another position.

• In contacts with Customers, we do not use the names of competitor companies.
Social and natural environment

- Our activity should consider the interests of local communities and principles of natural environment protection. As much as possible, we support charity initiatives and implement innovative solutions in the field of environmental protection.

- Spedpol is a reliable participant in social life. We remain in harmony with local communities. We conduct our activity so as not to harm our neighbours. We aim at limiting fume emissions and noise levels. It is strictly forbidden to blow horns at night-time.

- Spedpol assists those in particular need, including charity initiatives of an institutional character. In cases of disaster and natural calamity we participate in help-giving actions.

- We protect the natural environment and take care of greenery.

- We use electricity in a rational way. We turn off unnecessary sources of energy. We save water. We take care of tightness of the sewage system as well as sewage treatment.

- We try to recycle packages and produce as little waste as possible. We administer waste through its segregation and modern utilisation.

- We try to use materials that are the least harmful for the natural environment. We use the lowest possible amounts of materials harmful to the environment.

- We make sure that our carriers use efficient trucks that are not harmful for the environment. Trucks must be clean and systematically replaced with new ones. All activities connected with repairs, cleaning of equipment and trucks are performed at locations assigned for these purposes.

- We apply only friendly technologies and we do not violate the applicable environmental protection norms.

- We transport dangerous cargo in accordance with the law and valid procedures. Our priority is human life and health as well as environmental safety.
Designing sustainability at BMW Group: The Designworks/USA experience

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Abstract

THIS CASE STUDY DESCRIBES how an industrial design company developed a Sustainability Management System (SMS) standard, designed and implemented an SMS throughout its business, and then became the first company in the world to achieve third-party SMS certification. The case also describes ongoing development and challenges and examines how the SMS has facilitated the implementation of the United Nations Global Compact.

Company Profile

Situated in Southern California amongst more than 20 design studios operated by major automobile companies, Designworks/USA provides

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design and engineering services. Founded in 1972 as an independent design company, the firm developed expertise in designing vehicles—including automobiles, long haul trucks, railroad passenger cars, and construction equipment—as well as a wide array of consumer products such as cellular telephones, camera bodies, personal computer frames, ski goggles, and sunglasses. In addition, the company creates graphic designs for products that range from vehicles to snowboards. Its clients have included Atomic, BMW Group, Compaq, Heidelberg, John Deere, Gulfstream Haworth, Microsoft, Motorola, Nokia, Siemens AG, and Vivitar.

Designworks/USA began working with Munich-based BMW AG (which later became BMW Group) in 1985, when it was asked to design the seats for the BMW 8-series. The relationship grew and eventually BMW Group acquired 51% of the company in 1991 and the remaining share in 1995. Now a wholly-owned subsidiary of BMW Group, Designworks/USA continues to serve many other clients, which enables designers to leverage their experience with BMW Group to other types of products and allows BMW Group to learn from design projects beyond the domain of automobiles. Approximately half of the firm’s design work is for third-party clients. Designworks/USA employs 80 people across its four design departments (Automobile Design, Product Design, Transportation Design, and Advanced Communications Design or AdCom), Engineering, Human Resources, Operations, Finance/Administration, and Marketing/Sales. In addition, the firm bolsters its design department with nearly 20 contractors. The $15 million firm operates in a 77,000 square-foot facility an hour north of Los Angeles. In 1998, the firm opened a satellite office in Munich to facilitate communication with BMW Group and other European clients.

Designworks/USA has developed a standard workflow process to manage client engagements. Table 1 describes the objectives and main participants of each workflow element.
Sustainability management: From BMW Group to Designworks/USA

BMW Group has long displayed a commitment to improving the environmental profile of their products. In the early 1970s, BMW Group introduced the first electric powered car, was the first car manufacturer to appoint an environmental officer, and worked with other companies to establish a hazardous waste disposal system. In the late 1970s, BMW Group introduced the first hydrogen powered car. By the late 1980s and early 1990s, BMW Group was using water-soluble paint technology, focusing on issues of disassembly and recycling of end-of-life vehicles, and extending its management principles to include environmental guidelines. From the mid-1990s to the present, BMW Group began using low-emission, water-borne paint technology and powder clear coat, produced a natural gas powered series-production car and a small production series hydrogen powered car, committed itself to sustainable environmental protection, and is currently focused on clean production, clean energy, and lightweight engineering.
In 1999, BMW Group achieved a major milestone by implementing environmental management systems (EMS), which allow the company to identify and manage environmental risks and impacts, in all of its manufacturing facilities. Each of these facilities was certified to the International Organization for Standardization (ISO) 14001:1996 Environmental Management System standard, and some were also verified to be in compliance with the Eco-Management and Audit Scheme (EMAS). This completed a process begun in 1995 in Germany and Austria, and subsequently extended to all BMW Group production facilities worldwide.

Looking externally, the BMW Group began encouraging BMW dealerships in Munich and South Africa to be certified to ISO 14001. Internally, BMW Group was interested in deriving more value from their EMS efforts in a manner consistent with the company's commitment to continuous improvement. In addition, BMW Group sought to promote the concept of sustainable development within their organization. With over a decade of experience implementing EMS at their production facilities, BMW Group's environmental management team developed a clear understanding of benefits and limitations to the EMS process.

Accordingly, discussions amongst BMW Group's Environmental Management Systems Representative Suzanne Dickerson and two representatives of WSP Environmental, Ed Quevedo and Andrea Sumits, at the 1999 Munich US/European EMS Workshop led to the idea of developing a Sustainability Management System (SMS). WSP Environmental North America, part of WSP Group plc, provides sustainability, environmental, and geotechnical consultancy services to corporate and public agency clients throughout North America, Europe, and across the Pacific Rim. BMW Group had worked with WSP to implement EMS at several of its production facilities. A series of discussions ensued at BMW Group's Munich headquarters to select a pilot site.

Several factors led to the selection of Designworks/USA. First, it was acknowledged that design is a high leverage point over many sustainability issues. Designers are uniquely positioned to investigate and offer design alternatives that can influence the environmental, social, or economic impacts of products. Second, designers can bring a high level of creativity to developing and implementing an SMS. Accordingly, Dickerson and
BMW Group’s Director of Environmental Protection Manfred Heller approached Chris Bangle, Chief of BMW Group Design, to suggest that one of BMW Group’s design facilities serve as the pilot test site. Bangle agreed and approached Designworks/USA because it was unique among BMW Group’s design facilities as it serves a wide range of industries and clients in addition to BMW Group. This was an advantage because the length of time it takes to design many of the consumer products that Designworks/USA designs is significantly shorter than the length of time it takes to design an automobile, allowing for a more rapid assessment of the success of the SMS. At this point Designworks/USA had no comprehensive approach to identifying and managing its environmental and social aspects. The company’s experience would answer three key questions for BMW Group: (1) Can the EMS concept be extended into an SMS? (2) Can an SMS be made relevant and useful to a design consultancy? (3) To what extent can an SMS be adapted to suit BMW Group’s other facilities and business operations around the world?

**Developing an SMS Framework**

Designworks/USA agreed to facilitate the pilot. Designworks/USA could readily see the advantages in a system that allowed them to manage their environmental impacts and was intrigued, as a small firm with a ‘family feel’, by the opportunity to deal more systematically with its employees. In addition, as a profit center, Designworks/USA was very interested in a system that allowed them to better manage their financial aspects. Anticipating that significant modifications would be required to accommodate the many differences between its aspects and impacts and those of an automobile production facility, BMW Group lent Dickerson to the initiative and sponsored the involvement of WSP Environmental.

The SMS initiative was initially led by a team comprised of Dickerson, Designworks/USA’s Director of Finance Arnd Wehner, and WSP’s Quevedo. The first task was to develop a framework to ensure that environmental, economic, and social concerns would be incorporated throughout the organization’s decision-making processes. While no international standard for such a system existed, the team recognized the value in creating a framework akin to ISO 14001.
The SMS standard requires the organization to develop procedures to:

- Identify and prioritize sustainability aspects and impacts
- Identify legal requirements related to sustainability concepts and to evaluate compliance
- Develop sustainability objectives and targets within each organizational function
- Identify and deploy education and training to ensure awareness and competence
- Regularly interact with stakeholders including regulators and the public
- Routinely audit the organization’s management system against the requirements stipulated in the SMS standard
- Ensure that top management periodically reviews the SMS

in creating a framework akin to ISO 14001. Dickerson and WSP’s Quevedo and Andrea Sumits took the lead in drafting A Sustainability Management System Guidance, which would become the standard against which the organization’s management system would be audited. As such, we refer to this document as the “SMS standard.” In part, it calls for Designworks/USA to implement the following elements:

- Create a sustainability policy
- Identify and prioritize SMS aspects and impacts
- Establish objectives and targets
- Develop programs to achieve objectives and targets
- Evaluate progress via periodic internal audits and management reviews

The SMS standard addresses the broader sustainability issues in a similar way that the ISO 14001 EMS standard deals with environmental issues. The SMS standard is based on the structure of ISO 14001, includes the same major elements, and uses common terminology and definitions (e.g., environmental aspects and environmental impacts). In addition, both standards afford the organization wide latitude to develop its own impact prioritization scheme.

Functionally, the SMS standard requires that roles and responsibilities for improving sustainability performance be defined, and that a host of documented procedures be developed and controlled.

While the SMS standard was built on the ISO 14001 framework to facilitate certification to both standards, it contains many unique elements, particularly with regard to integrating social issues into the management system process. The SMS standard incorporates two leading conceptualizations of sustainability. First, it incorporates the “triple bottom line” concept by requiring management decision-making to incorporate economic, environmental, and social impacts. The Global Reporting Initiative’s 2002 Sustainability Reporting Guidelines promotes this approach, and many multinational companies have adopted it. Second, the SMS standard employs perhaps the most widely used definition of sustainable development, “development that meets the needs

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of the present without compromising the ability of future generations to meet their own needs.” Accordingly, the SMS standard defines sustainability as “a state of balance among the environment, society, and economy, achieved by creating a sense of shared organizational and personal responsibility for all future environmental, economic, and social impacts of the organization, which become the basis for actions calculated to meet the needs of the organization without compromising the future ability of others to meet their needs.” The “balance” called for in this definition is left to Designworks/USA to define.

The SMS standard extends beyond ISO 14001’s environmental scope by also including social and economic aspects into the management system. The SMS standard defines a social aspect as “elements of an organization’s activities, products, or services that can interact with society” and a social impact as “any change to the society, whether adverse or beneficial, wholly or partially resulting from an organization’s activities, products or services.” Economic aspects and economic impacts are defined in a parallel manner. The SMS standard also broadly defines an interested party as an “individual or group that is or may be concerned with or affected by the sustainability performance of an organization.”

Even within the environmental domain, the SMS standard departs from ISO 14001 in several substantial ways. For example, while the only performance level stipulated by ISO 14001 is that an organization’s environmental policy must include commitments to comply with all relevant environmental laws and to continuous improvement, the SMS standard includes “an expectation of progress in the management and consequent reduction of impacts or risks from the environmental, economic, and social impacts of the organization’s business operations.”

Initial SMS deployment

Implementation of the Designworks/USA SMS began in January 2001. To begin developing its SMS, management created an SMS Steering Committee, which was initially comprised of Designworks/USA’s Director

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of Finance and the Director of Operations. A year later, the committee structure was expanded to include a representative from each department. This section describes how Designworks/USA worked to implement the SMS standard by creating a sustainability policy, enumerating SMS aspects and impacts, developing an impact prioritization scheme, drafting action plans to address prioritized SMS aspects, and conducting their initial internal SMS audits. The section concludes with a discussion of the third-party certification process.

**Sustainability policy**

One of the first steps the SMS Steering Committee took was to develop a Sustainability Policy. The policy includes a commitment to continuous improvement of environmental, economic, social and ethical performance. Furthermore, the policy commits Designworks/USA to encourage all of its stakeholders – including suppliers, contractors, and clients – to implement similar practices. The SMS policy is available on the company’s website: [www.designworksusa.com](http://www.designworksusa.com).

Environmental issues are directly addressed in many portions of the company’s SMS Policy, including a commitment to continuously improve environmental performance and to incorporate “responsible resource use” and “environmental protection” into products designed for clients. Furthermore, the policy calls for Designworks/USA to incorporate the BMW Group’s Environmental Guidelines into decision-making. Social issues are also directly referred to in Designworks/USA’s SMS policy. The policy commits the company to “meeting or exceeding all ... health and safety legal requirements” and to continuously improve social and ethical performance. The policy also requires Designworks/USA to incorporate social responsibility into product development and advanced communications consulting services.

**SMS aspects**

After developing the policy, each department was tasked with creating a comprehensive list of environmental, social, and economic aspects. These are defined, respectively, as elements of an organization’s activities, prod-

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ucts, or services that can interact with the environment, society, and the economy. After listing their aspects, departments categorized each one as relating to environmental, social, or economic issues.

Identified environmental aspects include on-site issues such as solid wastes, emissions, effluents, and resource use, as well as environmental issues associated with products designed for clients, including those associated with their manufacture, use, and end-of-life disposition. Most environmental aspects associated with on-site activities, such as the modeling shop and general building operations, resemble those typically found in an ISO 14001 EMS. For example, Operations identified various waste streams and resources consumed as a result of their activities. More innovative environmental aspects related to the products the firm designs for its clients. For instance, the design departments identified as environmental aspects several opportunities during the project workflow process to suggest environmental criteria to clients, explore product life cycle impacts, and expand clients’ environmental/sustainability thinking. A sample of identified environmental aspects and impacts are presented in Table 2. The Significance column will be explained below.

| Department                    | Activity                      | Aspect                                                                 | Impact                                                                                       | Significance |
|-------------------------------|-------------------------------|----------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| Design/Engineering            | Product options and attributes brainstorming | Identify opportunities to include environmental and sustainability criteria into product attributes and performance evaluation, and to expand scope of client's business considerations | Potential to reduce environmental impact of manufacture, use, disposition of products, and of product processes | 26           |
| Operations/Shop              | Paint booth                   | Spraying and paint removal activities, sanding and cleaning          | Employee exposure, potential for environmental release, VOC emissions, dust and grit release  | 20           |
| Purchasing/Operations        | Supplier relations            | Environmental screening criteria applied to suppliers and vendors    | Improved decision-making process and potential influence over environmental, social, and economic issues | 25           |
Social aspects include on-site issues such as employee retention and turnover, optimal working conditions, gender and racial equity, workload and sufficient staffing, building evacuation and first responder training, indoor air quality, and general environment, health and safety (EH&S) awareness. The action plans also identified off-site social aspects. For example, child/forced labor and human rights screening criteria applied to suppliers/vendors and the dissemination of information and idea generation by teaching at local design schools. In relation to the design process, social aspects were not identified to the same level of specificity as were the environmental aspects. Some of the social aspects and impacts identified are presented in Table 3.

<table>
<thead>
<tr>
<th>Department</th>
<th>Activity</th>
<th>Aspect</th>
<th>Impact</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources</td>
<td>Hours worked</td>
<td>Workload, sufficient staffing</td>
<td>Employee satisfaction and health; quality of life</td>
<td>28</td>
</tr>
<tr>
<td>Purchasing</td>
<td>Procurement</td>
<td>Child/forced labor and human rights screening criteria applied to suppliers/vendors</td>
<td>Awareness of supplier/vendor organizational behavior</td>
<td>26</td>
</tr>
<tr>
<td>Designers</td>
<td>Teaching at local design schools</td>
<td>Dissemination of information and idea generation</td>
<td>Opportunities for environmental, social and economic awareness in design</td>
<td>24</td>
</tr>
<tr>
<td>Design/Engineering</td>
<td>Product options and attributes brainstorming</td>
<td>Identify opportunities to include environmental and sustainability criteria into product attributes and performance evaluation, and to expand scope of client's business considerations</td>
<td>Potential to reduce environmental impact of manufacture, use, disposition of products, and of product processes</td>
<td>26</td>
</tr>
</tbody>
</table>

Table 3 | SMS Aspects analysis: social
The economics aspects identified were primarily related to four themes: (1) increasing revenue by increasing sales to niche customers interested in sustainability management; (2) reducing various business risks; (3) improving employee productivity; and (4) reducing operating costs. For example, an aspect related to Human Resources included improving incentives to employees for creativity, innovation, and business development. The corresponding economic impact is improving employee productivity. Business recovery (Operations) is an aspect associated with the impact of mitigating risks of downtime. Table 4 illustrates a few additional economic aspects and impacts that were identified.

<table>
<thead>
<tr>
<th>Department</th>
<th>Activity</th>
<th>Aspect</th>
<th>Impact</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing</td>
<td>Develop success stories from use of environmental/sustainability considerations in projects</td>
<td>Use SMS as market advantage</td>
<td>Improve Designworks/USA's economic opportunities and performance, and contribute to advancing client base environmental and sustainability thinking</td>
<td>(Not rated)</td>
</tr>
<tr>
<td>Design</td>
<td>Teaching at local design schools</td>
<td>Dissemination of information and idea generation on “green design careers”</td>
<td>Improve recruiting</td>
<td>28</td>
</tr>
</tbody>
</table>

Aspect prioritization
All aspects were prioritized along the following seven dimensions: probability of occurrence; intensity; duration; legal and regulatory requirements; stakeholder concerns; leadership potential; and level of control. Each dimension was scored for each aspect using a five-point scale. In each case, a score of one represented the lowest priority or significance, such as the lowest probability of occurrence or the least intense impact. A score of five represents the highest priority or significance, such as an impact being of great concern to many stakeholders or where the impact presents an opportunity to demonstrate industry leadership. A score for each aspect was calculated by adding the seven sub-scores. While the
Participation and support of management was critical in the process of creating action plans. Where commitment from management lagged, the process suffered.

SMS standard calls on the company to “consider inviting interested parties to participate in the prioritization of its sustainability aspects,” Designworks/USA conducted this process in-house, with the assistance of BMW Group and WSP. Designworks/USA management indicated that they may invite interested parties to participate in this process in the future. After scoring each aspect, each department focused its efforts on those aspects with the highest scores, and set to work developing objectives and targets for many of these.

Objectives, targets, and action plans
After identifying and prioritizing aspects and impacts, each department created an SMS Action Plan. This document listed several prioritized aspects and described an objective for each one. To achieve each objective, one or more targets were established, and an individual was assigned the responsibility for meeting the target by a particular deadline. These plans are revised frequently following the SMS discussions that begin each department’s weekly meeting. After a few targets were met, each department added other aspects, objectives, and targets to their SMS Action Plan.

Participation and support of management was critical in the process of creating action plans. Director of Transportation Design Greg Brew, who serves as his department’s SMS Lead and sits on the SMS Steering Committee, noted “An enthusiastic Director allows people in the department to be into it, to become involved.” Where managers were particularly committed to the implementation of the SMS, for example in Transportation Design and Operations, action plans were prepared, action plan items were diligently addressed, and corrective action items from SMS audits were promptly implemented. Where commitment from management lagged, the process suffered. For example, the manager of one of the largest design departments neither attended nor sent a representative to SMS Steering Committee meetings where the action plans were coordinated. Consequently, the SMS action plans did not reflect the work or concerns of his department. He also declined to involve his staff in the weekly discussions of SMS. As a result, his design staff had not been thinking about incorporating SMS into their design processes due to their lack of exposure to, and consequent minimal understanding of, the
Designworks/USA SMS processes. As the company has become more energized and committed to the SMS, this manager has recently begun to participate and involve his staff members, who are beginning to understand and enthusiastically embrace SMS as part of their work.

A few items from various departments’ SMS Action Plans are presented in Table 5. The actual documents include additional columns to denote the person responsible and the deadline associated with each target.

<table>
<thead>
<tr>
<th>Department</th>
<th>Aspect</th>
<th>Category</th>
<th>Objective</th>
<th>Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design/Engineering</td>
<td>Identify opportunities to include environmental and sustainability criteria into product attributes and performance evaluation, and to expand scope of client’s business considerations</td>
<td>Environmental &amp; Social</td>
<td>Build capacity within design and engineering groups to enable effective assessment and coaching of clients on product environmental and sustainability issues</td>
<td>Develop product sustainability assessment tool for use in initial tutorial and on defined client projects</td>
</tr>
<tr>
<td>Operations</td>
<td>Consumption of electricity from building usage</td>
<td>Environmental</td>
<td>Educate workforce to reduce energy consumption (i.e. turn off lights and computers at night, computers, space heaters, lessen use of screen savers)</td>
<td>Train all employees</td>
</tr>
<tr>
<td>Purchasing</td>
<td>Environmental and social aspects of suppliers and vendors</td>
<td>Environmental &amp; Social</td>
<td>Screen suppliers and vendors to understand their environmental and social issues and their management commitment</td>
<td>Develop questionnaire, including environmental and child/forced labor issues based on SA 8000 and send to top 100 vendors and all new vendors</td>
</tr>
</tbody>
</table>
| Design              | Dissemination of information and idea generation on “green design careers” | Economic & Social               | Propagate SMS thinking in Design Schools curricula via teaching program commitment, with goal of enhancing recruiting and expanding design and engineering                                                  | Identify at least five design schools (or in house design firms in our client base) to be targeted with teaching program  
Prepare teaching materials for use by design and engineers in teaching program  
Deliver at least 4 teaching sessions                                                                                                              |
| Marketing           | Selection and marketing to clients with social and environmental commitments and priorities | Economic                        | To make new prospective clients aware of our SMS policy                                                                                                                                                  | Include environmental innovation component in new sales presentation  
Include environmental component in Branding                                                                                                            |
Internal audits

The SMS standard requires that an internal audit be conducted annually to ensure that business operations and decision-making throughout the organization conform to both ISO 14001 and the SMS standard. The internal SMS audit team, which consists of volunteers from several departments, developed separate SMS audit reports for the Design/Engineering, Marketing/Communications, Supply/Finance, Human Resources, and Operations departments. The audit scope includes examining the policy, aspects, objectives and goals, the development of each SMS Action Plan, compliance with legal and other requirements, and the extent to which each department applies SMS to customer relations and onsite activities. Internal audits have been conducted semi-annually since August 2001.

Certification and registration

Designworks/USA sought to have a third-party organization certify that its management system fully adhered to both the SMS standard and ISO 14001. Leveraging its experience with ISO 14001 and EMAS certifiers, BMW Group and WSP initially identified ten certification bodies, and used a systematic qualification process to initially reduce this number to three and subsequently select TÜV Süddeutschland. In December 2001, Designworks/USA became the first industrial design firm in the world to be certified to ISO 14001. Two months later, Designworks/USA became the first company in the world to achieve third-party SMS certification.

Outcomes and impacts

According to Director of Human Resources Sheila M. Walker, the SMS has focused the company on its long-term vision by increasing management commitment to long-term objectives and preserving support for programs even in tight budgetary times. This section describes various outcomes of Designworks/USA’s SMS implementation. We begin by discussing some of the firm’s internal projects, consider its work with its external stakeholders including clients and suppliers and finally look briefly at the application of SMS across BMW Group.

Applying SMS to building operations and personnel management

Several projects have implemented SMS issues into Designworks/USA’s onsite activities. A recent example is the process used to renovate the
facility's roof. The typical process is to remove the existing tar, which is often landfilled, and then add new tar. According to Lead Fabricator Craig Eggly, after Operations informed several contractors about its SMS initiative, one of them suggested a new coating system. By encapsulating the existing roofing material and creating a white surface, this system eliminates the need to landfill the existing material, dramatically reduces the noise, dust, and fumes associated with the project, and the resulting rooftop achieves EPA's Energy Star rating. As a result, Designworks/USA will reduce the amount of energy required to cool its building, and will thereby reduce its energy costs. In addition, installing this technology qualified Designworks/USA for a rebate from its electric company that fully offset the additional cost of this technology over the conventional technique, which amounted to several thousand dollars.

A second internal project that incorporates SMS issues is the installation of some major new machinery used to create prototype models. Contractors were sent information about the SMS and were asked to generate ideas about how the installation can promote SMS objectives. Contractor proposals included a variety of ideas, such as re-using the doors and other structural components that would be removed in the installation. In addition, contractors offered ideas to ensure that the residual construction debris would be recycled rather than land-filled. The project incorporated several such ideas, which simultaneously increased contractors’ labor costs but reduced capital and material costs.

To date, the social considerations that have been factored into the internal thinking of Designworks/USA have dealt primarily with human resources and occupational health and safety issues. For example, the issue of gender and racial equity was considered in the context of a formal compensation assessment program that was launched under the SMS. The program used an external salary survey and developed salary structures based on market value and then benchmarked each employee against this structure. Each person was considered according to his or her experience and education. Adjustments were made for the few individuals who fell below the appropriate level in the new salary structure. This program was implemented in large part to ensure that Designworks/USA was providing remuneration parity regardless of gender, race, or ethnicity. The company is also improving its performance appraisal process by involving multiple review partners, and is seeking permanent resident status for its key employees. It is also considering ways to reduce noise levels in the workshop and is working to enhance its employee recognition program.
Applying SMS to client engagements

As a consultancy, the extent to which Designworks/USA is able to effect change in product design is to a great extent dependent upon its relationships with its clients and the willingness of each client to improve the sustainability attributes of its products. Some clients share Designworks/USA’s commitment in this area and have been pleased to work with them to improve the sustainability profile of their products. Other clients have been skeptical of the benefits or have been disinterested in sustainability improvements to their products. The length and depth of the relationship between Designworks/USA and any particular client will affect the extent to which they can work in partnership to generate and implement design alternatives that may require the client to alter some aspects of how it does business. Designworks/USA tailors its approach to how it seeks to educate and influence its clients toward more sustainable design choices. Faced with a disinterested client, designers may recommend the use of high quality, environmentally-preferable materials without focusing on the environmental attributes of the material.

Designworks/USA has begun implementing the SMS into its design and engineering work. For example, the firm is working with a guitar manufacturer to evaluate the use of certified wood and a waste wood composite. In addition, Designworks/USA is working with a vacuum cleaner manufacturer to reduce its motor size, identify recycled materials that maintain a high quality feel, and develop a marketing plan to focus customer attention on performance attributes (e.g. high suction power, low noise levels) instead of motor size. The firm is also working with a construction vehicle manufacturer to consider alternative materials to facilitate their end-of-life recyclability. Social issues are not yet being systematically integrated into the design process.

SMS implementation has also encouraged several departments to actively develop some products even in advance of customer interest. For example, the firm is working with the California Department of Conservation to design an “e-bin,” a recycling bin that employs used materials already being collected for recycling but for which there are currently few or no secondary markets. One essential design criterion is that the bin must be iconic: it must maintain its fundamental design attributes while being scalable for home, office, and industrial use. In addition, the e-bin will be designed from a cradle-to-cradle perspective, which means it must be recyclable. By seeking
to utilize materials currently entering the municipal waste stream, and by working in partnership with the California government, this project includes environmental, social, and economic dimensions of the SMS. This project seeks to design an environmentally and socially beneficial product, and has been instigated by employees rather than clients, with the intention of identifying interested clients once the product concept is further developed.

**Applying SMS to suppliers and contractors**

Designworks/USA's Sustainability Policy commits the company to encourage its suppliers to share its SMS goals. So far, the company has taken four steps toward achieving this objective. First, questionnaires were developed to gather information and gain commitments on some environmental, labor, and human rights practice of Designworks/USA’s suppliers and contractors. The questionnaires sought a commitment to comply with Social Accountability 8000 (SA 8000), a voluntary standard that addresses several labor and human rights issues. Despite a poor response rate, the information obtained has reportedly influenced supplier selection on several occasions. In a second, related, initiative some departments have taken steps to work with their suppliers to address SMS issues. For example, Operations asked its major suppliers to reduce the size of their packaging, and has been successful in its attempts to have many of them substitute polystyrene packaging “peanuts” with those made of cornstarch.

Third, Designworks/USA wrote to its principal contractors to inform them about the SMS initiative and noted that all future tenders must include descriptions of the measures that will be taken to ensure that the environment is adequately protected throughout the project. The letter also noted that Designworks/USA is seeking to identify contractors “who demonstrate an understanding of environmental issues and who have effective systems for management of environmental risks and prevention of pollution.” A fourth step was creating an annual vendor (supplier) open house, the first of which occurred in September 2002. In addition to introducing how both BMW Group and Designworks/USA are implementing SMS, an interactive panel discussed challenges and opportunities associated with sustainability management.

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16 SA8000 contains provisions dealing with child labor, forced labor, health and safety, freedom of association and the right to collective bargaining, discrimination, disciplinary practices, working hours and remuneration. The standard is available from Social Accountability International’s website, [http://www.cepaai.org](http://www.cepaai.org).
Other stakeholders/outreach

Designworks/USA has identified additional key stakeholders with whom they can share their SMS initiative, and has focused these efforts on educating and partnering with their community. For example, several designers have supported Saratoga High School's initiative to become the first high school to receive ISO 14001 certification for its EMS by educating students about sustainable design, design careers, and the role of designers in society. Designers and engineers have also lectured on sustainable design at several engineering and design schools including the Art Center College of Design in Pasadena, the California Institute of Technology, and the Engineering Department at California State University, Long Beach. Designworks/USA's Nadya Arnaot, Soren Petersen, and Sheila M. Walker participated in the Newbury Park High School career day, discussing design and engineering careers and emphasizing the company's SMS philosophy. In addition, Greg Brew, Director of Transportation Design, has been working on regional sustainability planning with the Ventura County Sustainability Council.

Applying SMS across BMW Group

Initially, BMW Group is looking for Designworks/USA to integrate its SMS into its internal operations and to its design projects for third party clients outside the automotive sector. BMW Group management, which is considering implementing SMS in other BMW Group facilities and business lines, has learned a great deal about the challenges and opportunities involved in implementing an SMS from the Designworks/USA experience. According to BMW Group’s Guido Prick, who is responsible for environmental management in production worldwide, BMW Group is pleased with the Designworks/USA SMS efforts and preliminary results. He described the success of the Designworks/USA SMS as “a role model for the future of all EMS's within the BMW Group.”

Based on the Designworks/USA experience, BMW Group is planning to roll out the SMS initiative to its Rolls Royce manufacturing plant in Goodwood, England in 2003 and subsequently to convert every BMW Group production facility's EMS into an SMS. Despite the vast differences in the operations between a design consultancy and a manufacturing facility, Prick does not anticipate that the challenges in implementing the SMS at the latter to differ much from those experienced by Designworks/USA.
BMW Group’s Dickerson expects that implementing an SMS will actually be easier in a production facility because they feature more repetition, fewer creative processes, and a structured management system already exists. She also noted that the social aspects will be more important because manufacturing sites tend to be much larger.

**Ongoing SMS development**

Designworks/USA is engaged in many ongoing projects to enhance its SMS. Below, we describe efforts to further integrate SMS into the design process, the organization’s performance evaluation and compensation scheme, and efforts to make the SMS more accessible to all employees.

**Tools to integrate SMS into design**

A principal aim of the SMS is to incorporate environmental, economic, and social concerns into Designworks/USA’s design process by factoring these concerns into the creative process. A preliminary tool has already been developed to help screen prospective clients to understand their level of interest in sustainability. Table 6 describes how the company intends to incorporate sustainability into each element of the design process.

<table>
<thead>
<tr>
<th>Table 6</th>
<th>Incorporating sustainability considerations into the creative process</th>
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</thead>
<tbody>
<tr>
<td>Element</td>
<td>Means of incorporating sustainability considerations</td>
</tr>
<tr>
<td>Define</td>
<td>Build discussion of sustainability into initial discussion with client. Bring clients attention to sustainability issues that might arise in the design process and discuss brand attributes of sustainability.</td>
</tr>
<tr>
<td>Understand</td>
<td>Consider life-cycle impact of various design alternatives.</td>
</tr>
<tr>
<td>Explore</td>
<td>Gather information on alternative materials and design solutions.</td>
</tr>
<tr>
<td>Refine</td>
<td>Ensure technical feasibility and further refine material choices and design.</td>
</tr>
<tr>
<td>Implement</td>
<td>Seek to ensure sustainability-based choices are implemented in product manufacturing.</td>
</tr>
</tbody>
</table>
Several tools are being developed to assist the design and engineering departments to reduce the environmental impact of the products developed for clients. Each tool will support one phase of the design process. For example, in the “Understand” phase, designers need to be able to identify the design areas with the greatest potential to improve a product’s SMS performance. As such, several commercial Design for Environment (DfE) and Life Cycle Assessment (LCA) software tools are being evaluated. In the “Explore” phase, Design and Engineering need access to a wide variety of the latest materials, processes, and technologies to assess how they meet various design criteria including SMS aspects. Engineering has begun to accumulate knowledge about environmentally preferable materials and is developing an online database and a library of physical samples to share with designers and clients. To support the “Refine” stage, the engineering department plans to develop a tool to integrate DfE and Design for Disassembly concepts. To date, the tools under development focus on environmental considerations.

Integrating SMS into performance management and compensation schemes

Like most consultancies, Designworks/USA operates on the business model of hourly billing. As such, strong incentives are provided to maximize design and engineering staff members’ billability. A consequence of these incentives is that work that is not client billable is often de-prioritized. Given such incentives, it has been difficult at times to encourage staff to focus on SMS and other knowledge generating projects. To better align employee incentives with management’s desire to maintain profitability while progressing longer-term projects, Designworks/USA developed a performance appraisal system that includes evaluating SMS performance and commitment and it is developing a bonus scheme based on a balanced scorecard approach that will include SMS criteria.

Making the SMS more accessible

Several employees noted that the initial SMS documents used language that was difficult to comprehend, which both impeded participation and dampened enthusiasm in the SMS initiative. The use of technical language may be partially due to the SMS being initially created primarily by BMW Group’s environmental department and its consulting partner, WSP. It may
also be due to insufficient employee training to create a common understanding of some of the more technical concepts of the SMS, such as the differences between aspects and action items, or how the prioritization scheme works. A few Designworks/USA employees have been working to translate the SMS procedures and elements into simpler language to make it more accessible to their colleagues. One employee noted that the language seemed overly legalistic, which may be the result of gaps in culture (between Munich and California) and in company cultures (between BMW Group and Designworks/USA). Increasing accessibility is more than re-writing the actual text; it also involves providing ongoing training. At times, this is accomplished using real-life examples. For example, at a company-wide meeting, Eggly illustrated the environmental impacts of excess packaging by showing a real example of how a supplier packaged a cord using several packaging layers. He explained the various types of waste this practice generated, including material consumed in manufacturing the packaging itself and the additional environmental impacts associated with transporting its unnecessary volume. This example will also be used to help educate other suppliers of Designworks/USA’s desire to eliminate excessive packaging.

**Challenges and opportunities for future SMS development**

Designworks/USA’s SMS is still in the early phase of implementation. It has been in operation for less than two years. While Designworks/USA accomplished a great deal in a short period of time, the company faced a number of implementation challenges, some of which have been resolved, some of which are under active consideration and some of which remain of concern to some staff. Elements of the SMS represent a pioneering effort, such as seeking to integrate environmental criteria into the design of third party clients’ products and contemplating the scope of social issues that fit within the sustainability concept. As such, there are few companies to learn from and no ready-made examples to apply. Given this, it is not surprising that many opportunities are available for further program refinement and implementation.

Some challenges will be met through ongoing initiatives. For example, one designer noted that while he was attempting to integrate SMS concepts into client discussions, often he was asked questions he was not pre-
pared to answer. This resulted in his conducting follow-up research to prepare a response several days later. To some extent, this predicament will be mitigated as designers and engineers accumulate expertise about the sustainability implications of design choices, bolstered in part by the SMS tools currently being developed.

Another challenge identified is the reluctance of clients to pay Designworks/USA to research ways to improve the sustainability profile of design alternatives. On some occasions, Designworks/USA conducted this analysis anyway, absorbing the cost as an investment in developing their SMS capabilities and in exposing the client to the benefits of integrating sustainability concerns into the product design.

While management has asked that SMS be an agenda item in each department's weekly meeting and requires the attendance of departmental representatives at SMS Steering Committee meetings, as discussed earlier, the willingness of department managers to do so has varied. The engagement of management with the SMS will be encouraged by the integration of SMS as a component of performance reviews. As the organization is becoming more energized by the implementation of the SMS, it appears this problem of early resistance from some quarters is being overcome.

Designworks/USA is still developing a plan to tap external sources of sustainability knowledge, including identifying and sending staff to appropriate training and developing partnerships with universities to increase contact with professors and student intern candidates. In one such effort, Nicole Kranz, a graduate student from the University of California's Donald Bren School of Environmental Science and Management was hired to assist in the development of SMS tools, organize the supplier open house, and work on several SMS Action Plan items. By the end of her 3-month internship, it was felt that she was among the most knowledgeable individuals at the company about its SMS. In an effort to institutionalize her knowledge, she produced a final report to the SMS Steering Committee.

While Designworks/USA has recognized the above issues, the organization also faces several challenges and opportunities to improve the effectiveness and comprehensiveness of its SMS. Like many design firms, the company culture encourages creativity, innovation, and inspiration, and this led to challenges in getting the staff to document and follow procedures. BMW Group and WSP stepped in to provide initial drafts of the for-
mal SMS documentation. While this facilitated the timely implementation of the SMS, apparent gaps remain in the knowledge about the relationship between some of the SMS documents. For example, after the initial development of comprehensive aspect/impact registries and a prioritization scheme, several departments do not rely upon the prioritized aspects as the basis for adding new items to their SMS Action Plans. Instead, they favour the use of a more creative process, brainstorming sessions, to add new action items or decide which ones to address next. While this process is aligned with the company’s culture of creativity, it undermines the systematic process the SMS is meant to facilitate and suggests the need to better integrate creative work processes into a systematic management system. For example, this creativity could be channelled into identifying additional SMS aspects, or enhancing the aspect/impact prioritization scheme or sustainability policy. Such changes would then flow through the SMS in a systematic way to add new or reprioritize existing action items.

While the company has focused its SMS performance monitoring on process metrics (e.g., implementing SMS Action Plan items, following up SMS audit issues), few results metrics have been developed. The latter might measure, for example, the cumulative lifecycle environmental benefits of product design changes their clients have implemented due to the Designworks/USA SMS program. With regard to the internal social impacts of the SMS, the company is developing an employee survey. In addition, metrics – such as employee recruitment success rates and employee turnover – already collected for other purposes could also be used to assess the results of SMS implementation.

To date, the integration of social issues into the design process has remained primarily an idiosyncratic process that relies on the awareness of individual designers. Indeed, most occasions where social issues have been included in design work can be attributed to the insight, enthusiasm, and persistence of individual designers. As such, systematically incorporating social aspects of product design into the design process – in a manner similarly envisaged for environmental aspects with the new SMS tools – represents another opportunity for future SMS development.

Finally, Designworks/USA can better leverage its efforts by further disseminating its novel approach to implementing sustainability. To be sure, Designworks/USA has informed its customers and vendors about its SMS,
and it has shared its initiative in a few conferences. However, the company could publish a formal internal or external SMS report, integrate its SMS initiatives in its client brochures, and promote its efforts through the company website.

**SMS & the United Nations Global Compact**

United Nations (UN) Secretary General Kofi Annan proposed the UN Global Compact to challenge world business leaders to take more responsibility for improving the social and environmental dimensions of the global economy. The Global Compact is based on nine principles in the areas of human rights, labor, and the environment, drawn from the Universal Declaration of Human Rights, the International Labour Organisation’s Fundamental Principles on Rights at Work, and the Rio Principles on Environment and Development.

BMW Group, the parent company of Designworks/USA, is one of the major international corporations that have formally committed to the UN to implement these principles. As part of its participation in the Global Compact Learning Forum, BMW Group wrote a case study describing its Clean Energy Project in Germany, which implements the three environmental principles.\(^\text{17}\) The current case study is a second step BMW Group has taken to share its practices with other companies interested in the Global Compact. Below, we analyze how the Designworks/USA SMS implements several Global Compact principles.

**SMS & human rights and labor principles**

A few of the aspects identified and actions initiated under Designworks/USA’s SMS directly address the Global Compact’s human rights and labor principles. For example, the consideration of promotion, hiring and performance review practices in order to facilitate gender and racial equity and the attempts by Designworks/USA to improve their understanding of their supplier’s practices in relation to a number of human rights, particularly child and forced labor. Together these efforts touch on Principles

\[^{17}\text{BMW Group’s Clean Energy Project case study, prepared for the UN Global Compact is available at http://65.214.34.30/un/gc/unweb.nsf/content/ppsups.htm.}\]
1, 2, 4, 5 and 6. Many other social-related Designworks/USA SMS initiatives are socially useful, in that they seek to improve community and government awareness of sustainability issues or improve employee satisfaction. However, while clearly valuable, these initiatives do not directly address the Global Compact’s six principles related to human rights and labor.

One way to progress the realization of the Global Compact principles relating to human rights within the company would be to harness the SMS process to increase the range of social issues incorporated in Designworks/USA’s design process. Just as recommendations on environmentally sound design options are considered a part of the SMS, the company could use the SMS to develop a systematic way for designers to consider the human rights impacts that their products may have. Designers have considered issues of accessibility for the elderly and people with disabilities as part of the design process for some time. In North America this was a particularly ‘hot’ issue for designers in the 1980s and 1990s. Driven mainly by a desire to avoid litigation this movement was predominantly reactive and client driven, rather than proactive. SMS could provide a framework for a more systematic investigation and consideration of human rights impacts, positive and negative that may arise from certain design choices. SMS aspect identification allows designers to think more broadly than the legal requirements and to proactively consider the broad human rights impacts of the products they design. This approach would result in a more systematic consideration of human rights issues in the design process, particularly if tools for this purpose similar to those currently being refined by Designworks/USA for use in relation to environmental issues were developed for human rights issues. Embracing a more systematic approach to injecting social considerations into the design process builds upon the current efforts of individual designers in the areas of accessibility and privacy. Taking this approach would allow a much greater realization of Principles 1 and 2. It would seek to employ client influence as a major instrument to leverage Designworks/USA’s SMS competencies to further promote the Global Compact principles.

**SMS & environmental principles**

Many features of the Designworks/USA SMS support the Global Compact’s three environmental principles. This case study has provided many examples
that illustrate how Designworks/USA has embedded environmental concerns into its SMS. As with its social initiatives discussed above, many of Designworks/USA’s environmental initiatives go well beyond the Global Compact’s three environmental principles.

As mentioned earlier, the SMS approach – akin to the ISO 14001 EMS process – requires each department to identify and prioritize its sustainability aspects and impacts, including environmental ones. Objectives and targets are developed for prioritized aspects, and these become the focus of ensuing SMS activity. This proactive process is a classic example of a “precautionary approach to environmental challenges,” as required by Principle 7.

Not only is Designworks/USA undertaking initiatives “to promote greater environmental responsibility” – as called for by Principle 8 – through its efforts to minimize its onsite environmental impacts, but a major thrust of its SMS is to work with clients to reduce the environmental impact of their products. As described above, the company is also taking an increasingly active role to reduce the environmental impact of its supply chain, including both material suppliers and contractors.

Designworks/USA’s SMS activities also directly relate to Principle 9, which calls on companies to strengthen the market for environmentally friendly technologies. The efforts of its Purchasing and Operations departments to reduce the company’s onsite environmental impacts have led them to request contractors and suppliers to recommend environmentally superior technologies. The roofing example provided earlier is a case in point. In fact, Designworks/USA was the first customer of this new technology, and its order enabled the contractor to procure the specialized equipment required for its application. This is facilitating the diffusion of this energy-saving technology to the contractor’s other customers in the area.

Designworks/USA has also encouraged the contractor to show its site to prospective customers of this technology. Greater potential to diffuse environmentally friendly technologies is available from the ongoing work of the Design and Engineering departments. As they embed more environmentally superior materials and design concepts into their product designs, these technologies will be disseminated to many of Designworks/USA’s clients.
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