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Proving the case for
sustainability at Alcoa

What you'll learn

- The key elements of Alcoa's business case for sustainability activities.
- How Alcoa sacrifices short-term gains for longer-term stakeholder acceptance.
- How sustainability builds Alcoa's reputation and raises employee morale.

Proving the case for sustainability at Alcoa

Creating a plan based on real and measurable results

In June, Alcoa's executive committee approved a sustainability plan that integrates economic, environmental and social factors in the company's decision-making. Here, Anita Roper illustrates how real and measurable results have resulted from this integration, and describes how sustainability has been applied to projects in Australia and Iceland.

By Anita Roper

Alcoa's sustainability strategy is designed to align our values with society's values to ensure long-term success for both Alcoa and the communities in which we operate. The business benefits of our sustainability strategy are multi-faceted and based on creating strong internal decision making (e.g. enhanced identification and management of risks and opportunities), which enhances our reputation with our societal stakeholders (e.g. customers, communities and employees).

Alcoa is the world's largest producer of aluminum and aluminum products, with 120,000 employees operating in 41 countries around the world. Because we operate in so many different communities and impact the environment and society in many ways, sustainability activities are vital to the company's long-term success. In this article, we present the business case that informs Alcoa's sustainability strategy – examples where sustainability and the company's business values intersect. It's a case based on real and measurable returns such as cost savings, meeting stakeholder



Anita Roper

is Alcoa's director of sustainability, a position based in New York and created in January 2004. She is responsible for ongoing activities in sustainable development and deploying new programs for the company in this area.

Keypoints

- The Alcoa business case is based on real and measurable returns such as cost savings, meeting stakeholder expectations and exploiting new market opportunities.
- Integrating sustainability can reduce operating costs and improve the bottom line.
- Alcoa's largest investor recently requested information on sustainability performance, stating that sustainability performance demonstrated good governance practices and improved the security of their investments.
- By examining core business processes through the lens of sustainability, opportunities for innovation and new business prospects are being generated.
- Good management of governance, social, economic and environmental performance can build reputation, while poor performance can damage brand value.

expectations and seizing new market opportunities

The core business case is divided into seven benefits – cost savings, investor demand, innovation, license to grow, meeting stakeholder expectations, engaging employees in constructive community focused roles, and the ability to seize new market opportunities. The benefits of the sustainability strategy also include:

- Enhancing corporate reputation and brand image.
- Reducing and managing business risks.
- Employee morale and productivity.
- Access to markets and customer loyalty.
- Ensuring continual improvement.

How sustainability brings cost savings

Integrating sustainability has reduced operating costs and improved the bottom line. For example, PVC linings in beverage cans were causing emission problems. Active engagement with customers to remove it helped avoid large capital costs for Alcoa – eliminating the need for expensive other emission control technology. Another example of cost savings is our energy efficiency efforts, which have led to US\$16 million per year in savings and an anticipated US\$60 million annual saving, by 2007.

Attracting investors

There's a growing trend in the investment community to supplement the traditional financial factors with environmental and social performance factors when evaluating a company's suitability for investment, as well as whether the company is positioning itself to capitalize on opportunities related to shifts toward more sustainable forms of production and consumption. One of Alcoa's largest shareholders recently requested information on sustainability performance, stating that sustainability performance demonstrated good governance practices and improved the security of its investments. Alcoa's annual Sustainability Report is an important tool for investors to demonstrate transparency in key performance areas and to show that Alcoa understands and manages all forms of business risks.

Better decision-making leads to innovation

By examining core business processes through the lens of sustainability, opportunities for innovation and new business prospects are generated. Increasingly, sustainability criteria are factored into material and product selection in key markets such as automotive, and building and construction. The Dura-Bright Wheel is an example of an innovative product that Alcoa has used to position itself as a provider of more sustainable products. The product improves fuel efficiency, eliminates cleaning products, and extends tire and brake life, which ultimately reduces the customer life-cycle costs. Alcoa product development processes will increasingly integrate sustainability into the design of new products.

Granting the license to grow

Alcoa recognizes that it requires formal and informal support from its communities to ensure it can grow. This is Alcoa's "license to operate." A key driver for Alcoa to operate and grow its business is to take a broader approach to stakeholder engagement to obtain these licenses. The company has ambitious growth plans and its access to resources is dependent on earning the trust and respect of a variety of external stakeholders.

Failing to obtain community support or attracting the criticism of activist groups can increase costs by holding up approvals in lengthy public hearings or make the company unwelcome to the extent that expansion projects do not go ahead. In Rockdale, New South Wales, and in Western Australia, Alcoa faced opposition from local groups that had concerns about impacts of operations on the environment and the community. In both cases, Alcoa is investing strongly to build confidence and trust with stakeholders to lead to overall community support for expansion of operations.

Meeting stakeholder expectations

Community trust is invaluable to resolving disputes and issues and Alcoa clearly understands that trust is built when stakeholders see that Alcoa is open to hearing their concerns and working with them to address environmental, social and economic issues. For

Figure 1: Alcoa's sustainability model

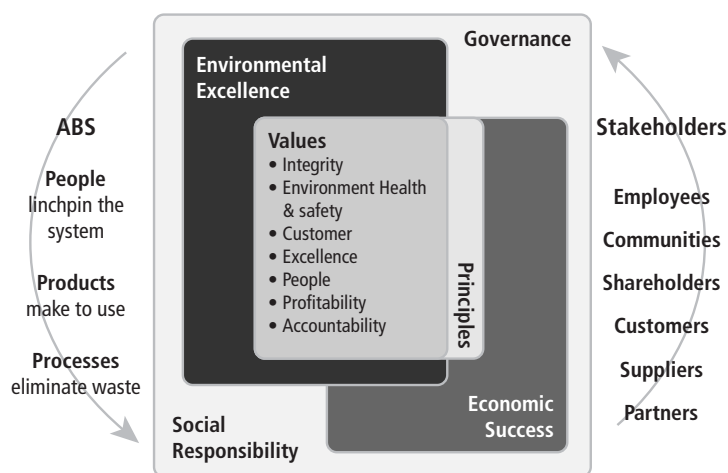


Figure 1 provides the overall model for implementing sustainability within Alcoa. The model illustrates that our values and principles underpin our economic, social and environmental performance. The Alcoa Business System (ABS) is the key driver for integration of sustainability. Stakeholders will be engaged to contribute to growth and ensure that we understand their expectations of us.

example, Alcoa has strengthened relationships with key stakeholders through the work of our employees in communities, our corporate, regional and community reporting efforts, our healthy workforce initiatives and our global community consultation efforts. These efforts help our employees and the company earn and maintain its societal license to operate, and they are strongly linked to Alcoa's reputation.

Our recent experience in Fjardaal, Iceland, illustrates the positive reaction from local stakeholders when Alcoa involved them at the front end of a greenfield development. It's well understood that local communities often possess special knowledge and information about local environmental conditions, cultural and social issues that an outside corporation or individual does not have. When stakeholders are engaged proactively, these issues can be addressed early in project design and operation, which will enhance environmental performance, avoid unintended social problems and create better working conditions. Alcoa's effort at the Fjardaal smelter project to engage stakeholders in the development of sustainability performance measures for the project is a key example of Alcoa's leadership in meaningful engagement of stakeholders.

Another example of how engagement with stakeholders can lead to benefits for both Alcoa and a local community is a proposed AUD\$440 million upgrade to Alcoa's aluminum refinery in Pinjarra, Western Australia. The refinery already produces 3.4 million tons per year (about 7 percent of the world's

refining capacity) and the upgrade will increase production by 600,000 tons per year and include new emissions control technology.

The sustainability issues are divided into environmental (effects on groundwater, residue, dust emissions, odours, gas and noise), social (local employment and services, youth training and employment, traffic, workplace safety) and economic (local economic benefits, maintaining local property values, government investment in region).

Employing its sustainability framework, Alcoa created a stakeholder reference group. During the consultation process, community representatives recommended the next Pinjarra refinery residue storage area be placed away from the township, immediately to the east of the existing refinery area. Alcoa committed to do this, and it cost significantly more in the short term due to the need to relocate gas, power, water lines and artesian bores along the refinery's eastern boundary. But the company gains in the long-term by maintaining its license to operate in this community. Other actions were reducing greenhouse emissions, controlling bauxite dust in the workplace and surrounding area, drawing water from an alternative supply, employing cleaner engineering in plant design and reducing the emissions of greenhouse gases.

Another example shows how our failure to meet stakeholder expectations can inhibit our growth plans. Alcoa's refinery in Wagerup, Australia, has been poised for expansion for several years, however, the level of disapproval in the community had resulted in our willingness to invest in expansion only when all potential community issues were thoroughly investigated by independent scientific and health experts. As this work has been completed, we are now seeking community support to grow this operation.

Finding new markets

Alcoa has an opportunity to develop innovative sustainable products for the vast and growing markets of the developing world. These markets contain close to four billion people who do not live a highly consumptive western industrialized life style. There are many unmet needs in these markets and there's an opportunity to develop products or work with customers to develop new products specifically designed for these markets.

Enhancing reputation and brand image

Good organizational management of governance, social, economic and environmental performance can build reputation, while poor performance can damage our brand's value. Alcoa's corporate reputation has been enhanced by external recognition of our performance – the Dow Jones Sustainability Index, *Fortune* magazine's Most Admired Metals Company and in 2004 as the

Second Most Admired US corporation for Social responsibility, etc. This recognition is prominent in the communities in which we operate and is mirrored by a wide range of regional awards (e.g. Quality and Environment award from Toledo Chamber of Commerce, 2002 Award for Social Commitment and Employment Creation Province of Lugo Business Federation, etc.).

Building customer loyalty

Sustainability pays off in improved access to markets, including customer loyalty, security in existing markets and attractiveness in new markets. It also helps Alcoa continually improve on its business practices. Alcoa's Business System (ABS) core principles focus on the elimination of waste, and this has led to substantial savings over the last six years, totalling over \$2 billion.

Managing business risk in an increasingly complex global marketplace with greater stakeholder scrutiny of corporate activities is becoming essential to business success. Alcoa's efforts on environmental and health and safety performance have clearly reduced business risks (e.g. reducing shutdowns, ensuring customer requirements are met, mitigating exposure to regulations). Similarly, our Ethics and Compliance programs and broad-based internal audit processes clearly help to ensure that risks are identified and managed.

Employee morale, productivity and awareness

The pursuit of sustainability can help the company align employee and corporate values and beliefs. This alignment contributes to increased employee morale and motivation and these, in turn, translate into greater productivity.

In addition to employee morale benefits, sustainability can increase employee awareness of environment and social issues affecting the company and can encourage employees to look for additional ways to improve the company's performance. Employees act as ambassadors for the company in their communities and supporting them with both strategy and funds has led to some outstanding results.

For example, Alcoa's sustainability reporting at both the corporate and regional levels provide a tool to reinforce Alcoa's Vision and Values and business strategy. Using a case study approach, the reports convert sustainability from a theoretical term to a practical business tool. It shares information not only between our employees but also with all our stakeholders.

Showing real and measurable value

We have seen major benefits from our sustainability activities – including reducing water use by 16 percent and landfill waste by 44 percent since 2000, and a 25

Case study – aluminum plant, Fjardaal, Iceland

The proposed project: A proposed aluminum plant that will produce 322,000 metric tons per year in eastern Iceland. Related projects include a 500-megawatt power station and a harbor facility.

Sustainability issues: social (local culture, community capacity, population); economic (employment, regional development, services and infrastructure); environment (changes in habitat, emissions, aesthetic effects).

What Alcoa did to address the issues: In partnership with the Landsvirkjun power company, Alcoa established a stakeholder advisory group to develop a framework (objectives, indicators and measures) to assess the performance of Fjardaal and Karahnjukar against sustainability principles (integrating economic, social and environment factors). Following construction of the smelter and the hydro facility, both companies will report to the community against the measures developed with the community.

percent reduction in greenhouse gas emissions since 1990. We are working more closely with the communities in which we operate, and are members of organizations promoting leading-edge sustainability practices. Alcoa is taking an active role in the Global Aluminum Sustainable Development Initiative of the International Aluminum Institute, and the company has also committed to report against the International Council on Mining and Metals' sustainable development principles. Each of the elements in Alcoa's business case represent a strong reason for pursuing sustainability activities. Together, they form an undeniable case that sustainability leads to real and measurable business value. CRM

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