Influencing Power
Reviewing the conduct and content of corporate lobbying

SustainAbility

WWF

Contents

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Executive Summary

This report describes the results of a SustainAbility and WWF research project to review how 100 of the world's largest companies report on their lobbying practices. Our objective was to assess corporate transparency on lobbying and public policy behaviour, and the degree to which reported activities align with core business values, particularly when it comes to influencing governments on key corporate responsibility issues, such as climate change and human rights.

Benchmarking Corporate Lobbying

This report is very much a work in progress on this agenda and follows on from our 2000 publication, *Politics and Persuasion*, produced in partnership with the Omnicom lobbying firm Government Policy Consultants (GPC). Where the 2000 report made the then bold claim that corporate responsibility practices should be explicitly linked with a company's lobbying and public policy activities, this report looks at how a cross-section of businesses has subsequently responded to the challenge of transparency and reporting in this area.

The report ranks how 100 major companies now report on lobbying and its relationship to their core business – from the provision of no information, through to *basic*, *developing*, *systematic* and *integrated* reporting. While the methodology revealed that over 50% (51) of our sample achieved at least a *basic* rating and that a handful of corporate reports make it into the *systematic* category – **BASF**, **BP**, **Chevron**, **Dow**, **Ford**, **General Motors**, **GlaxoSmithKline** and **HP** – no high scores were without issue or qualification. Wider research and the process of independent review raised several questions with regard to the consistency of wider corporate lobbying activities that may not have made it into their formal corporate responsibility report.

For instance, while **Ford** and **General Motors** may have high levels of transparency and a growing sophistication in reporting their lobbying activities, they still actively resist controls on greenhouse gas emissions via sponsorship of their industry trade group. Similarly, while **GlaxoSmithKline** may report on the excellent work it is doing on access policies for essential drugs in developing countries, it is also a major member of **PhRMA**, whose position on intellectual property rights is strongly criticised by HIV/AIDS policy experts.

Transparency and Consistency

Inconsistent approaches to corporate lobbying – saying different things to different people via different parties – are unlikely to be tenable for the long term. Legislative developments and growing interest from shareholder activists and NGOs, plus internal aspirations for greater alignment, are likely to drive change. Being seen to conduct lobbying activities in ways that are transparent and consistent with core business – and wider societal – values will be essential to re-establish trust with a variety of stakeholder groups. Based on emerging good practices within our research group, the report makes recommendations on how companies can consider and evolve their current approach to responsible lobbying and influence.

Third Generation Lobbying

Although our research finds that transparency around lobbying is increasingly accepted, most companies strike an overwhelmingly defensive tone – asserting their right to lobby and their positions on particular issues. This approach we characterise as 'second generation' corporate responsibility. Here, the main driver is risk management, and transparency and consistency in lobbying are promoted primarily as a way of minimising reputational risk to the business.

In contrast a 'third generation' approach would view corporate responsibility as a strategic differentiator and recognise the potential for lobbying to help drive stronger social and environmental policy frameworks in support of core business. A few companies show indications of evolving this approach, such as the support **IBM** and **Philips** give to waste recycling, or the very public stance that the **Corporate Leaders Group on Climate Change** took in encouraging UK Prime Minister Tony Blair to pursue more aggressive policies on climate change. However these initiatives, while welcome, are largely undermined where other lobbying activities appear to reflect a 'first' or 'second generation' attitude. The overall impact is contradiction and inconsistency, communicating a sense of hidden agendas and stories only half told.

Shortly before this report went to print, it seemed apt that there should be media coverage of the role **ExxonMobil** has played in helping frame the US administration's position on climate change,[1] as well as alleged inconsistencies between **BP**'s position as a member of the **Corporate Leaders Group on Climate Change** and its lobbying activities in Washington DC.[2] It seems unlikely that these are exceptional instances in the blurred and complex relationships between business and government. The shift towards transparency and consistency in the practice, reporting and disclosure of corporate lobbying appears to have only just begun.

Three Generations of Corporate Responsibility and Lobbying

Lobbying	First Generation	Second Generation	Third Generation
State of CR	'CR as PR'	CR as a way of managing reputation or operational risk	CR as strategic differentiator
Role of Lobbying	Links between lobbying and CR are rejected	Transparency and consistency supported primarily as part of reputational risk management	Lobbying as an opportunity to drive stronger social and environmental policy in support of core business

Figure 0.1

Introduction

1.0

1.1 Benchmarking Corporate Lobbying

Over the past few years the number of major companies picking up the corporate responsibility (CR)[3] agenda has been substantial. As part of the work for this report, for example, we found that over three-quarters (77) of the world's 100 largest companies now produce some form of stand-alone corporate responsibility or sustainability report. So widespread is the practice, in fact, that while ten years ago pioneering companies were remarkable for producing such reports, today it's the lack of reporting at the other 23 companies that is more noteworthy.

Despite this impressive rise in reporting by large companies,[4] substantive progress on the big social and environmental challenges we face remains elusive. We believe this lack of progress derives partly from the fact that CR is often an add-on — leaving core business models and operations largely untouched; and partly from the fact that market frameworks within which companies operate do not provide the signals needed to encourage companies to adopt more progressive practices.[5] This gap in market frameworks, in turn, is often attributed to government concern over business resistance to new policies. As a group of leading companies including **BAA**, **BP**, **Cisco Systems** and **HSBC** have explained with relation to climate change:

'The private sector and governments are caught in a "Catch 22" situation . . . Governments tend to feel limited in their ability to introduce new policies for reducing emissions because they fear business resistance, while companies are unable to take their investments in low carbon solutions to scale because of lack of long-term policies.'[6]

This brief report builds on an initial paper produced by SustainAbility and Government Policy Consultants (GPC) in 2000. That publication, *Politics and Persuasion*,[7] made what was then seen as a bold claim — that CR practices needed to be explicitly linked with a company's lobbying and policy activities. (See Panel 1.1 for an outline of such activities.)

At that time, the suggestion that these two areas might be connected was widely considered to be at best an unwelcome 'stretch' for corporate responsibility, and at worst a harmful restraint on a legitimate business practice. Five years on, the growing activity around this topic suggests that the scales are tipping in favour of those working to bring greater transparency and responsibility to lobbying (see Section 1.3).

But although there has been a ground-swell in activity from NGOs, investors and other commentators, progress within the business community has never, to our knowledge, been systematically analysed.[8] The **first aim** of our project is to address this gap by benchmarking 100 of the world's top companies on how they report on their lobbying, and to derive recommendations on how this process could be improved. The **second aim** is to move from a focus on 'conduct' to look at 'content', and make the case for companies to work with governments and other stakeholders in helping shape public policy for sustainable development.

Structure of the Report

Section	1	2	3	4
	Introduction Explains the basic concepts and background behind this report.	**Our Approach** Sets out the process used in reviewing company reports and discusses limitations of the approach.	**Results and Findings** Provides the major results from the research as well as our principle conclusions on the *conduct* of corporate lobbying.	**Where Next** Sets out our assessment of why and how companies should adopt best practices in linking CR with the *content* of their lobbying.

Figure 1.1

A Complex and Contentious Issue

At this point it is worth emphasising that lobbying is a complex area. At any one time, a multinational may be interacting with many different policy-making bodies around the world through many different mechanisms. From the US through the UK to France, Japan and China, the nature of the business–government interface varies enormously. The situation becomes even more complex in the context of conflict, failing states or societies in transition. In addition, interactions can take place at local, national, regional and international levels.

We also recognise that lobbying can be contentious. For some, lobbying is part of a company's right to free speech. Increasingly it is also acknowledged that effective public policy — including on sustainable development — *requires* companies to take an active role.[9] Others argue that lobbying undermines democracy due to the significant imbalance of power and resources between companies and other entities, with companies perceived to be pursuing narrowly self-interested positions at odds with the rest of society.

This perspective was underlined as this report went to print, when revelations were made concerning the close relationship between **ExxonMobil** and the Bush administration on climate change.[10] As one Greenpeace activist put it, 'The cynical way to look at this is that **ExxonMobil** has removed its sleeper cell from the White House and extracted him back to the mother ship.'

Undoubtedly, the reality is generally more nuanced, with companies needing to consider costs and benefits as well as the needs of other stakeholder groups in their interactions with policy-makers. But the relative lack of transparency around lobbying leads many to assume that what companies communicate privately to government — either independently or through industry bodies — often conflicts with society's best interests.

Ultimately until this 'black box' of lobbying is comprehensively opened up, allowing the interface between private business and governments to be more transparent and better understood, trust — which has been flagging for many years[11] — will remain elusive. We believe it is in the interest of business urgently to address such concerns.

Who the Report is For

The primary audience for the conclusions and recommendations of this report is the business community. Given the significance of this issue for many stakeholders, an important secondary audience consists of investors (who seek out 'responsible' companies or want to understand political risks), governments (who set policy and regulate business), NGOs (who both act as watchdogs of business and influence public policy themselves) and trade associations and professional lobbyists (both of whom lobby on behalf of companies).

1.2 The Scale of Corporate Lobbying

To provide some perspective on the scale of corporate influence on government and public policy we turn to the US, where disclosure laws mean more information is available. It is estimated that during the 2004 US election cycle, donors with business interests contributed US$1.5 billion to politicians and political parties.[12] This scale of corporate campaign finance has led to much concern and some legislative reform (see Panel 3.2).

Lobbying and Other Public Policy Activities

This report considers a range of corporate activities or decisions which are intended to influence public policy. These include efforts to:

— influence the outcome or direction of proposed or existing legislation.

— influence how regulators apply or enforce existing laws.

— influence the broad direction of public policy, whether at the local, national or international (e.g. through the UN or World Trade Organisation) level.

— support (either directly or indirectly) external organisations including industry associations, chambers of commerce, think-tanks, NGOs, etc. that seek to influence public policy.

— develop or improve the company's relationships with government officials, civil servants or the judiciary.

— support political candidates or incumbents through, for example, monetary donations or other forms of support.

These activities go beyond just 'lobbying' and may include, for example, relatively neutral engagement between business and government without business seeking a particular outcome. However, to keep the language simple we have chosen to use the common term 'lobbying' instead of a broader alternative like 'corporate public policy activity'.

Panel 1.1

Yet less talked about but even more significant is the amount spent on lobbying Congress, the White House and more than 200 federal agencies. This is estimated to be over US$3 billion in 2004 – up from US$1.6 billion in 1998.[13] While this money does not all come from the private sector – NGOs are also involved, for example – the top amounts do. Figure 1.2 shows the amounts spent on lobbying by the top 20 companies and organisations. Note that some of the largest amounts come from industry bodies – the US **Chamber of Commerce**, the pharmaceuticals industry association, **PhRMA** and the **Business Roundtable**, to name a few.

These figures are available because the US Lobbying Disclosure Act of 1995 requires mandatory public disclosure. In Brussels, however, where 15,000 lobbyists are estimated to represent a €60–90 million industry,[14] disclosure is voluntary, leaving comprehensive figures unavailable.

1.3 Background to Lobbying and Corporate Responsibility

In the short time since the publication of *Politics and Persuasion*, the slow drip-drip of pressure around lobbying has grown to include a wide range of groups concerned with the social and environmental performance of the corporate sector. The NGO community championing this agenda includes both organisations dedicated to addressing issues around lobbying (e.g. Corporate Europe Observatory[15]) and others that have picked up the cause in recent years, such as the Association of Chartered Certified Accountants, which promotes disclosure on lobbying through its annual reporting awards programmes.

In the US, the socially responsible investment community is in the vanguard of actions aimed at driving greater transparency of lobbying within the corporate community. For example, in 2004 alone, investor groups working with the Center for Political Accountability filed 23 shareholder resolutions calling for disclosure of political donations. The resolutions gained significant support from mainstream shareholders, garnering up to 16% of votes at corporate annual general meetings. Similarly a coalition of investor groups working with the Interfaith Center on Corporate Responsibility (ICCR) wrote to nine of the largest pharmaceutical companies in autumn 2004 asking them to disclose corporate political contributions and their policies and procedures to manage such contributions.

Other notable initiatives include:

– Investors and investment researchers such as Generation Investment Management, KLD Research and Analytics, Trillium Asset Management and the UK Institutional Investors Group on Climate Change are actively considering ways to assess the approach that companies bring to their public policy activity.

– The work of Greenpeace and the UK's Green Alliance[16] in this area, supported by a broad coalition of NGOs and business groups, has culminated in the publication of *The Private Life of Public Affairs* in 2003,[17] and instigated a letter-writing campaign to the FTSE 100 group of companies asking for their perspectives on the issues the report raises (see Panel 3.1).

– NGOs such as WWF,[18] the CORE Coalition[19] and Forum for the Future[20] have published research intended to catalyse action by companies and trade associations. The issue has also been highlighted a number of times in recent years in the *Lifeworth annual review of corporate responsibility.*[21]

– The Institute of Business Ethics launched a report[22] in June 2005 looking at ethical and business issues related to lobbying.

– AccountAbility and the UN Global Compact are developing principles to guide companies in their framing of lobbying approaches on public policy issues.

– Siim Kallas, Vice-President of the European Commission, launched an initiative calling for legislation to increase the transparency around lobbying of European Union institutions.[23]

– The Alliance for Lobbying Transparency and Ethics Regulation (ALTER-EU) was launched in June 2005, with over 80 civil society groups calling for 'ending corporate privileges and secrecy around lobbying in the European Union'.[24]

In 2004 alone, investor groups working with the Center for Political Accountability filed 23 shareholder resolutions calling for disclosure of political donations.

Money in Lobbying 1998–2004 [25]

Company / Organisation	Reported Lobbying Expenditure (US$)
US Chamber of Commerce	$193,582,839
Altria Group	$125,274,200
Verizon Communications	$105,426,174
General Electric	$105,166,256
Edison Electric Institute	$100,312,966
Northrop Grumman	$92,958,937
PhRMA	$92,582,135
Business Roundtable	$90,376,500
Lockheed Martin	$88,931,565
American Medical Association	$84,000,000
American Hospital Association & State Affiliates	$80,071,000
AT&T	$72,185,000
Freddie Mac (Federal Home Loan Mortgage Corporation)	$71,975,000
SBC Communications	$71,333,037
Boeing	$71,075,810
National Association of Realtors	$63,200,000
Microsoft	$61,644,500
Fannie Mae (Federal National Mortgage Association)	$60,397,000
ExxonMobil	$60,270,242
Pfizer	$54,845,520

0 $50M $100M $150M $200M

Figure 1.2

Our Approach

2.0

2.1 Scope of the Project

The core of the research for this project involved a benchmark of the Standard & Poors (S&P) Global 100, a widely recognised listing of major global companies,[26] to assess disclosure around companies' lobbying and public policy activities.

Our research focused on the **conduct** of lobbying – assessing the level of transparency and looking for evidence that companies are actively linking lobbying with their stated commitments and values. The benchmark is not, however, an assessment of the **content** of corporate lobbying, nor is it an assessment of a company's overall CR performance.

Transparency is a basic requirement of our assessment. So companies that may be using their influence over public policy responsibly but without transparency will receive a low rating. We feel this is justified as transparency is integral to accountability, although we concede that there are a small number of specific circumstances in which transparency could be counter-productive, for example in the context of corruption or human rights in failing states or dictatorial regimes.

Overall our assessment is based on the concepts of:

– **Transparency**
  Does the company provide information on its lobbying and public policy activities?

– **Materiality**
  Does lobbying and public policy information focus on the most material issues for the business (see Panel 3.4)?

– **Consistency**
  At least within the scope of this report, consistency refers to alignment between a company's lobbying activities and its values and business principles. How far does the company go in demonstrating how lobbying is linked to and supportive of its core values and principles?

Although the focus of this report is on benchmarking company performance, we believe these principles apply to all groups involved in lobbying government including NGOs.

2.2 Method

Collecting the relevant documentation for review then involved a two step process and included:

– **Checking if the company has a published report covering their approach to CR**
  For conglomerates we focused on the group or corporate report rather than reports relating to just one country or area of operation.[27]

– **Reviewing the group or corporate website for information on lobbying and public policy positions**
  In order to manage the time spent reviewing websites (in some cases companies have over 1,400 pages on CR issues) we limited our search for information to 20 minutes on the basis that if more time than this was needed, we would consider the information to be too far buried to be considered 'transparent'.

Having collected the relevant material, we analysed the documentation based on a rating system derived from the SustainAbility/UNEP report benchmarking methodology,[28] but focusing exclusively on lobbying (See Figure 2.1).

2.3 Limitations

It is our view that the method outlined above allows us to paint a picture of the approach that companies in the S&P Global 100 take to lobbying in the context of their values and principles. The higher a company scores, we believe, the more it can claim to be transparent and consistent in its approach to lobbying.

However, there are some important caveats. For example:

- The research assesses the transparency of lobbying based on **company-supplied** public information for 100 companies. The approach does not allow us to assess whether some material information is not being disclosed — which would require an investigative approach more appropriate for a much smaller group of companies.
- Companies may be influencing policy in ways that are **inconsistent** with their stated policy positions, through support for organisations like trade associations or think-tanks (see p.14). However, company influence through such third parties was considered only in so far as information was provided in company reports or websites.
- There are many forms of **soft influence** on public policy, ranging from supporting think-tanks that influence the broad policy environment to fostering relationships with government officials (e.g. by hiring former government staff or the secondment of staff between business and government). This is an absolutely critical area but hard to measure and was considered in the rating only where company information was available.
- The S&P Global 100 was chosen as the basis of the benchmark in order to have a widely recognised listing of major global companies, representing a spread of industrial sectors and geographies. However, this listing includes only the **largest companies** and will not necessarily reflect the corporate sector more broadly. It also disregards companies in many world regions, especially outside the OECD countries.
- As noted, political cultures and the business–government interface can vary enormously from one country to the next. Many of the underlying assumptions in this paper are based on an **Anglo-American model** as we were unable adequately to address a diversity of cultures within the scope of this project (although see comments on p. 14). We acknowledge this bias as a major gap, but hope that the paper makes a helpful contribution to a debate which others will certainly expand upon.

Rating the Quality of Information

	None	Basic	Developing	Systematic	Integrated
The quality of the information and approach adopted by each company was given one of the following ratings.	No information provided on lobbying. Or the company makes general references, such as a simple statement of compliance with the law on political contributions, but provides no insight into activities or impacts.	Coverage recognises the relevance of lobbying to corporate responsibility issues.	As above but information also includes signs that robust systems and processes are being developed to actively manage and disclose lobbying and public policy activities. The company likely discusses at least one 'material' issue in some depth.	Coverage of lobbying indicates that systems exist to actively manage and disclose lobbying and public policy activities. The company likely discusses policy positions on several material issues in some depth. However, approach to lobbying is still not fully integrated with company values, business principles and core business decision-making.	As above and in addition there is an explicit link made between corporate values and principles, core business decision-making (including corporate govern-ance) processes and a company's approach to public policy. There is likely, for example, to be evidence of a decision-making process leading from basic values and principles to specific business objectives and lobbying that supports these objectives.

Figure 2.1

Results and Findings

3.0

3.1 Transparency is Increasingly Accepted

Perhaps the most striking finding from our research is that approximately 50% (51) of the world's largest multinational companies are providing at least some degree of transparency around lobbying activity. And for those companies in our sample that produce a CR report, this figure rises to 60%.

These findings can be interpreted in two ways. On the one hand, they suggest that there has been substantial progress since the 2000 publication of *Politics and Persuasion* — when we found no more than a small number of companies publishing information on their lobbying. On the other hand, with the variable quality of reporting among current disclosers and with 49% of companies not providing any meaningful information, there is still clearly a long way to go.

Leaders

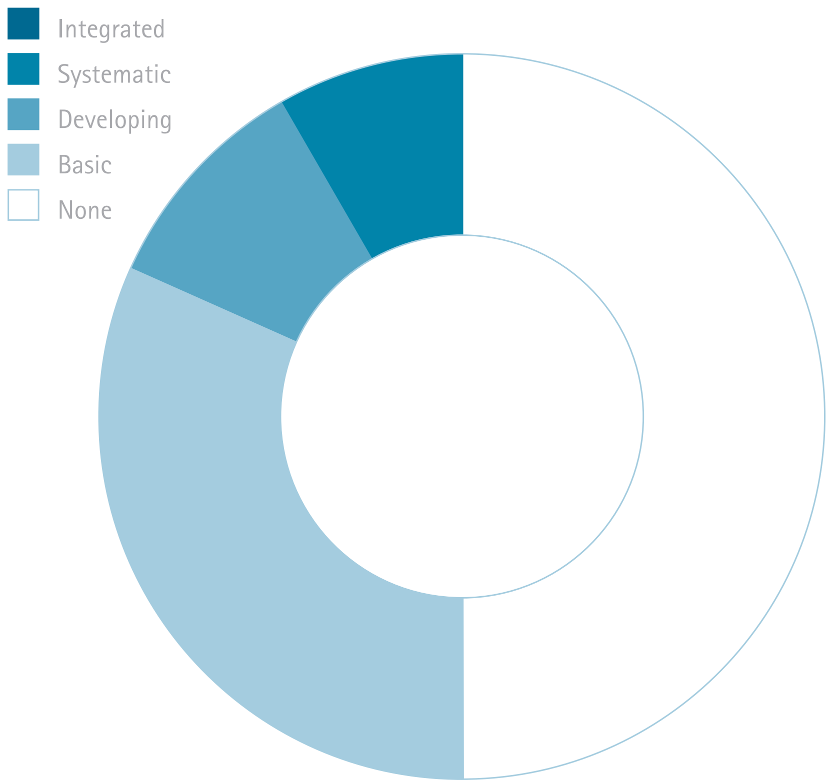
Although no company's approach to lobbying was rated as *integrated*, eight companies were considered to have provided *systematic* information:

- **BASF**
- **BP**
- **Chevron**
- **Dow**
- **Ford**
- **General Motors**
- **GlaxoSmithKline**
- **HP**

Several of these companies are considered to be among the best corporate reporters more broadly, with **BP**, **Ford**, **GM** and **HP**, for example, all appearing in the top 50 of the SustainAbility/UNEP/S&P 2004 ranking of corporate responsibility reports.[29] As indicated earlier, however, good reporting does not necessarily translate into good social or environmental performance.

Also notable are some of the companies that appear in our lowest category which failed to provide any information on their lobbying activities. Among these are companies like **Deutsche Bank**, **HSBC**, **Intel** and **Novartis**, which are otherwise regarded as having good reputations for corporate responsibility.[30]

Overall Assessment



Proportion of companies in S&P Global 100 receiving each of our five ratings

Figure 3.1

3.2 Key Drivers

The key drivers for the enhanced transparency we are seeing around lobbying are likely to be multi-faceted and include an increased focus on this agenda from NGOs, investors and other stakeholders (see Section 1.3), enhanced risk management by companies (see Section 4.2) and new legislative initiatives. For example, in their responses to this and other research projects, companies have pointed to the growing access the public has to information as a result of freedom of information legislation. Efficiency gains may also be a driver as transparency aids internal processes, joining-up thinking and avoiding duplication and contradiction.[31]

Results

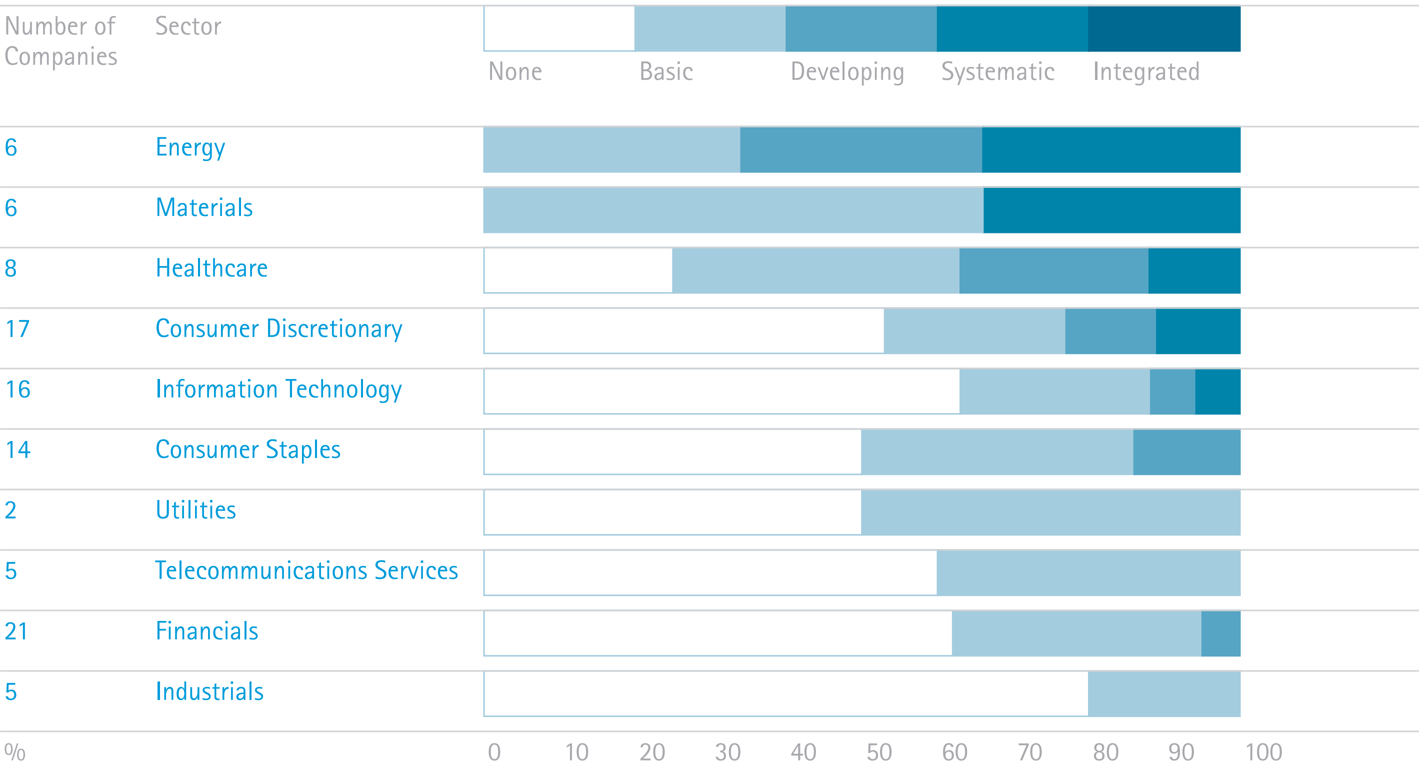
Company	Country	Sector
Integrated		
No companies recieved this rating		
Systematic		
BASF	Germany	Materials
BP	Great Britain	Energy
Chevron	USA	Energy
Dow	USA	Materials
Ford	USA	Consumer Discretionary
General Motors	USA	Consumer Discretionary
GlaxoSmithKline	Great Britain	Health Care
HP	USA	Information Technology
Developing		
Altria	USA	Consumer Staples
AstraZeneca	Great Britain	Health Care
Diageo	Great Britain	Consumer Staples
Microsoft	USA	Information Technology
Pfizer	USA	Health Care
Philips	Netherlands	Consumer Discretionary
Royal Dutch / Shell	Netherlands	Energy
Swiss Re	Switzerland	Financials
Time Warner	USA	Consumer Discretionary
Total	France	Energy
Basic		
Alcan	Canada	Materials
Barclays	Great Britain	Financials
Bayer	Germany	Materials
BBVA	Spain	Financials
BHP Billiton	Australia	Materials
Bristol-Myers Squibb	USA	Health Care
Citigroup	USA	Financials
Coca Cola	USA	Consumer Staples
Colgate-Palmolive	USA	Consumer Staples
Credit Suisse	Switzerland	Financials
DaimlerChrysler	Germany	Consumer Discretionary
Dell	USA	Information Technology
Deutsche Telekom	Germany	Telecommunications
DuPont	USA	Materials
ExxonMobil	USA	Energy
Fortis	Belgium	Financials
France Telecom	France	Telecommunications
IBM	USA	Information Technology
ING	Netherlands	Financials
Johnson & Johnson	USA	Health Care
McDonald's	USA	Consumer Discretionary
Merck	USA	Health Care
Morgan Stanley	USA	Financials
Nestle	Switzerland	Consumer Staples
Nokia	Finland	Information Technology
Procter & Gamble	USA	Consumer Staples
Repsol	Spain	Energy
Suez	France	Utilities
Texas Instruments	USA	Information Technology
Toyota	Japan	Consumer Discretionary
Unilever	Netherlands	Consumer Staples
United Technologies	USA	Industrials
Volkswagen	Germany	Consumer Discretionary

Company	Country	Sector
None		
3M	USA	Industrials
ABN Amro	Netherlands	Financials
Aegon	Netherlands	Financials
Alcatel	France	Information Technology
Allianz	Germany	Financials
American Int'l. Group	USA	Financials
Assicurazioni Generali	Italy	Financials
AT&T	USA	Telecommunications
AXA	France	Financials
Banco Santander	Spain	Financials
BNP Paribas	France	Financials
Bridgestone	Japan	Consumer Discretionary
Canon	Japan	Information Technology
Carrefour	France	Consumer Staples
Deutsche Bank	Germany	Financials
E.On	Germany	Utilities
EMC	USA	Information Technology
Ericsson	Sweden	Information Technology
Fujifilm	Japan	Consumer Discretionary
General Electric	USA	Industrials
Gillette	USA	Consumer Staples
Hitachi	Japan	Information Technology
Honda	Japan	Consumer Discretionary
HSBC	Great Britain	Financials
Intel	USA	Information Technology
Ito-Yokado	Japan	Consumer Staples
JPMorgan Chase	USA	Financials
Kimberly-Clark	USA	Consumer Staples
L'Oreal	France	Consumer Staples
Lucent Technologies	USA	Information Technology
Matsushita Electric	Japan	Consumer Discretionary
Mitsubishi Tokyo FG	Japan	Financials
News Corporation	USA	Consumer Discretionary
Nissan	Japan	Consumer Discretionary
Nortel Networks	Canada	Information Technology
Novartis	Switzerland	Health Care
PepsiCo	USA	Consumer Staples
Reuters	Great Britain	Consumer Discretionary
Samsung	Korea	Information Technology
Sanofi-Aventis	France	Health Care
Siemens	Germany	Industrials
Sony	Japan	Consumer Discretionary
Telefonica	Spain	Telecommunications
Toshiba	Japan	Information Technology
Tyco	USA	Industrials
UBS	Switzerland	Financials
Vivendi Universal	France	Consumer Discretionary
Vodafone	Great Britain	Telecommunications
Wal-Mart	USA	Consumer Staples

Figure 3.2

Ratings by Sector [32]

Quality of Information



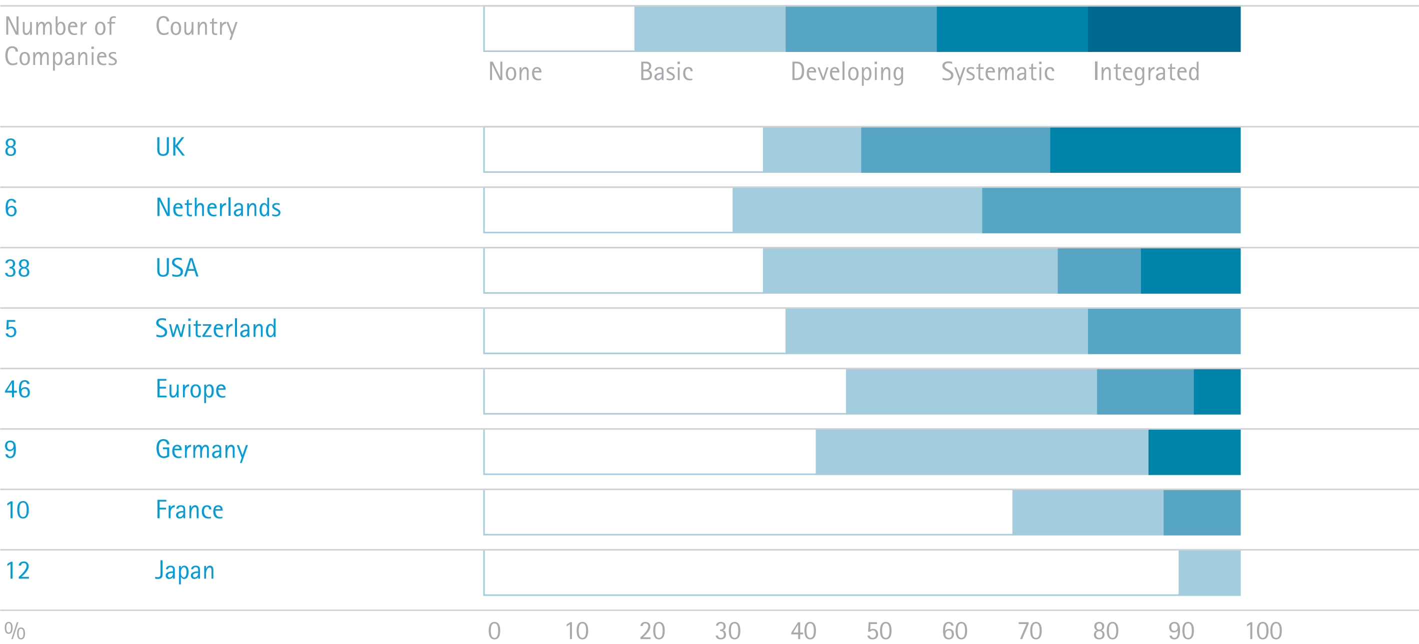
The graph shows the percentage of companies in each sector which received each of our five ratings.

The figures on the left show the number of companies in each sector in the S&P Global 100.

Figure 3.3

Ratings by Country

Quality of Information



The graph shows the percentage of companies from each country or region which received each of our five ratings. The figures on the left show the number of companies in each country in the S&P Global 100.

To make the statistics more meaningful, only countries which have at least five companies present in the index are included in this graph — leaving out Australia, Belgium, Canada, Finland, Italy, Korea, Spain and Sweden.

Figure 3.4

It is striking, though, that nearly all of our top scorers are from sectors such as **Energy**, **Materials** and **Health Care**, which have heavy direct social and environmental impacts. This finding is perhaps not too surprising, given that these sectors receive a significant amount of scrutiny from NGOs, socially responsible investors and governments, and so are more likely to have the issue on their radar screen. It is also likely that companies with heavy social and environmental impacts are more proactive in addressing government in efforts to ensure policy frameworks are congruent with their business needs.

Conversely, in our analysis, companies in the **Financials** and **Telecommunications Services** which, until recently, have been considered low impact sectors, receive some of the lowest average ratings. In the other low scoring sector, **Industrials**, companies tend to have a high impact but low brand profile. Nevertheless, NGOs have launched powerful campaigns on these sectors in recent years. **Finance**, in particular, has come under great scrutiny – given the significance of the sector's indirect social and environmental impacts.[33] These campaigns, and others focused on sectors like the **Media**, are beginning to cross over to public policy issues,[34] which may lead to increased disclosure from these sectors.

For some companies, however, the drivers may be more complex. **Diageo**, for example, reports on the work it has been doing with NGOs, think-tanks and others to support UK government efforts to address alcohol misuse. **BASF** reports in some detail on its contribution to the public debate on nanotechnology. Both of these issues are controversial, with opinions polarised as to what government intervention – if any – should take place.

Regional Differences

There also appear to be some regional differences in the way in which companies are responding to demands for greater transparency, though in general the differences are less pronounced than when looking across industry sectors. Of the 15 countries that are represented in the S&P Global 100, the UK ranks highest on average, followed by the Netherlands and the US. The only region to fall well behind the others was Japan where of the 12 companies in the survey only one, **Toyota**, made any reference to the issue of lobbying.

Analysing differing national approaches to lobbying is beyond the scope of this research, although there are likely to be a number of factors at play. The UK, for example, has established a strong position on CR issues more broadly, and NGOs have been particularly focused on this aspect of corporate behaviour (see Panel 3.1). The US has perhaps the most open legal and cultural framework for lobbying as well as strict freedom of information legislation, and so it is therefore perhaps not surprising that US companies score relatively highly.

France scores the lowest of the European countries. It may be that corruption scandals involving companies and government during the Mitterand era in the 1990s has led companies to adopt a lower profile. The low level of transparency in Japan may in turn be linked either to wider difficulties in reporting on non-technical issues [35] or indeed may simply be a consequence of different interpretations of what lobbying means in Japan.

> It is striking that nearly all of our top scorers are from sectors such as Energy, Materials and Health Care, which have heavy direct social and environmental impacts.

UK Perspective

While our benchmark focuses on companies in the S&P Global 100, other efforts have focused more specifically on individual countries. In the UK, for example, WWF supported by NGOs including Amnesty International, Friends of the Earth, Greenpeace and Oxfam wrote to the FTSE 100 group of companies in April 2005 asking them to report back on progress against the recommendations of the 2003 Green Alliance report *The Private Life of Public Affairs*. This represented a follow-up to an initial letter sent by the Green Alliance in 2004, inviting companies to engage with this debate and adopt the report's recommendations.

Responses were received from 22 companies in all – twice as many as in 2004. Some responses from companies like **BAA**, **BP**, **Diageo**, **HBOS**, **Marks & Spencer**, **Tesco** and **Vodafone** indicated a degree of sophistication in considering the issue. Others, however, focused on CR more broadly without addressing the specific question of lobbying – suggesting they either misunderstood the issue or had little to say to it. Some of the specific responses included:

- A thoughtful contribution from **Marks & Spencer**, which provided details on the company's submissions to the UK government on REACH and the UK Sustainable Development strategy. These submissions included a call for a strong Central Chemical Agency and a high profile, robust government-led benchmarking of the sustainable development performance of each industrial sector.

- Companies such as **Reckitt Benckiser** taking the more traditional line that 'companies can address improvements in sustainability performance without the need for public policy changes'.

- A significant variation in the way in which companies acknowledged material issues. **HBOS** explains why its focus on social issues like financial inclusion and literacy is appropriate given its business. **BAE,** in contrast, highlights its joint lobbying policy with trade unions which focuses on job protection. However, the company neglects to mention lobbying efforts to weaken controls on bribery and corruption by the UK's export credit agency. [36]

Panel 3.1

On Money in Politics in the US

Political donations by corporations is one aspect of public policy activity – and is of particular importance in the US, where it has been the subject of considerable scrutiny and reform. In November 2002, the US Congress enacted legislation (the McCain-Feingold Act) that prohibits national political parties from soliciting and receiving 'soft money'[37] contributions.

As a result, since 2002 soft money has often been channelled into organisations which have no direct legal link to political parties themselves. These include trade associations and non-profit issue advocacy organisations known as '527 organisations' (after the tax code section regulating them). The 527s have become an important political force and were especially prevalent during the last election cycle both on the left ('MoveOn.org') and right ('Swift Boat Veterans for Truth').

527s may not directly advocate the election or defeat of any federal candidate, although they may support other political activities, including issue advocacy. As 527s are not election associations, they are not regulated by the Federal Elections Commission and only report income to the Internal Revenue Service, a much less detailed and rigorous procedure. Although 527s existed before 2002, more and more corporate money is now channelled in this way.

In our benchmark we found six companies published their corporate political payments: **Bristol-Myers Squibb**, **Dow**, **GlaxoSmithKline**, **HP**, **Morgan Stanley** and **Pfizer** – although the parameters of what they disclose vary. Only **Morgan Stanley** and **Pfizer** disclose soft money payments to 527s through their reports or websites.

Other forms of corporate money in politics receive still less scrutiny. For example, no companies in our sample disclose in their report or website the amount paid to lobbyists. Yet the amounts are staggering. In 2004, alone, the collective invoices of Washington lobbyists were likely to have exceeded $3 billion[38] (see Section 1.2).

Panel 3.2

3.3 Disconnects

Although transparency has received a significant boost through the latest reports and websites, our research showed some major disconnects between a company's lobbying and its broader values and principles. This gap is an enduring concern – raised by several reviewers of the report (see Panel 3.3) as well as others like Kofi Annan. As the UN secretary general has put it: 'Business must restrain itself from taking away by its lobbying activities, what it offers through corporate responsibility and philanthropy.'[39] Specific examples of disconnects include:

– **BP** was a signatory to the **Corporate Leaders Group on Climate Change** letter to the UK prime minister but was subsequently alleged to have been lobbying in the US against Senator Bingaman's proposal for compulsory limits on carbon dioxide emissions.[40]

– **GlaxoSmithKline**, which reports on the excellent work it is doing on access policies for essential drugs, is a major member of the industry association **PhRMA**. The association is regularly criticised by HIV/AIDS policy experts, for example, for its lobbying position on intellectual property rights.

– **Ford** and **General Motors** have high levels of transparency and a growing sophistication in their treatment of this agenda, but were criticised for lobbying against attempts to control greenhouse gas emissions from the auto-sector, including through their involvement in the Alliance of Automobile Manufacturers.

Indeed, a source of ongoing concern around disconnects relates to company support for industry associations or other external affiliations. Opinion is polarised as to the extent that associations are on the one hand simply an efficient way for companies to lobby on collective goals versus being a means of influencing government in ways which contradict stated values, without exposing the company brand.

Some cases have been documented where companies express concern that organisations they support have been lobbying in contradiction to their stated interests. **Union Pacific**, for example, which has a policy on non-discrimination based on sexual orientation, donated money to Americans for a Republican Majority (ARM). ARM in turn funded groups that actively opposed gay rights – and which the company states it would not have supported.[41]

Some companies have taken steps to address the issue of disconnects. For example, **Dow** describes an 'advocacy review screen' to test its lobbying against CR policies and commitments. **Chevron** acknowledges the need to demonstrate how lobbying aligns with social and environmental responsibility. However, neither company provides substantial information or discusses the practicalities of achieving alignment in any depth.

3.4 What Gets Covered and Why

The process used for managing and directing corporate lobbying activities is an area that very few companies communicate clearly.[42] Even companies such as **AstraZeneca** and **Pfizer**, which provide impressive levels of detail on specific policy positions, neglect to supply any insight into why these issues were chosen or how positions were developed. Whether this is because companies consider their approach to be proprietary, or because there is an uncomfortable 'gap' in their corporate governance processes, is not clear.

Some companies do allude to the systems and structures that lie behind their approach:

– **Chevron**, **ExxonMobil**, **Ford**, **Johnson & Johnson** and **Texas Instruments** all report that their lobbying is governed by a board-level committee, but provide little additional detail on how this operates.

– Other companies like **General Electric** prefer to describe a more general philosophy underlying their approach to the issues without actually describing the specific governance process.[43]

– Only a handful, including **BP**, address both.

Materiality

Companies have often rebuffed previous efforts to encourage the opening of their lobbying to public scrutiny, not least because of the bureaucratic burden of providing this transparency. As **Shell** argued in its thoughtful response to the Green Alliance publication:[44] '[We] are not sure that minuting all dialogue and opinions on a website would take us much further forward.'

In the year since this exchange, the concept of materiality (see Panel 3.4) has become increasingly central to company approaches to CR. As part of their efforts to rationalise and prioritise, companies are focusing on identifying, managing and reporting on a smaller set of issues that are material to their business and to key stakeholders.

This approach is also relevant to lobbying, although so far most companies fail to provide any rationale for the selection of policy issues they report on. **HP**, however, provides more context than most, explicitly identifying four major issues material to its business including: access to markets, e-commerce, electronics recycling and competitiveness, and providing policy positions for all four.

Society as Judge

The draft of this report was reviewed by roughly 20 CR experts from academia, business, government and civil society. One concern raised by several reviewers was that the picture we paint is too 'rosy'. Some pointed out that we focus only on the largest companies. Others noted our ranking is based on published information, which by definition is selective. A third group highlighted disconnects stemming from the role of industry associations. We acknowledge these limitations (see Section 2.3).

Interestingly, some of the most forceful concerns came from commentators from business (although admittedly from the CR arena). Many felt that the companies that received high ratings in our analysis did not merit this ranking. For example, **Chevron's** role in the Extractive Industries Transparency Initiative, **Ford's** lobbying on climate change, **BP's** activities in host government agreements for the BTC Pipeline project and **Total's** continued activities in Burma were all seen as major issues that potentially invalidated our results. Two of our reviewers, one from business and one from the investment community, helped articulate their reasons for this unease:

– 'I find my position hard, if not impossible, to prove but my instinct and general knowledge of the corporate world tells me that at very best no single company deserves to be rated above developing.'

– 'Some of these companies have leadership roles in industry associations, which can set up a structural tension between those in the company who are trying to uphold the principles you've underscored, and the often conflicting principles of protecting industry against perceived threats from groups like NGOs. I'm not so sure disconnects stem from lack of communication so much as inconsistency or competing objectives.'

We also grappled with similar concerns. Yet we concluded that our focus should be on assessing whether companies are transparent, focus on material issues and make the link between their policy positions and their values and principles. With this information, we believe society can make a judgement about the responsibility of a company's lobbying activities.

Panel 3.3

Defining Materiality

Understanding what constitutes 'material' social and environmental issues for a particular company has emerged as a major challenge in corporate responsibility.

In very simple terms, a material issue is one that is important – one which could affect perceptions about a company and any decisions taken (whether by investors, employees, neighbours, NGOs or other stakeholders) as a result.[45] Defining the threshold of what is or is not material, however, is no obvious task. What is material varies between and even within industries based on the (ever-changing) context in which a company operates – and is usually only easily identified in hindsight.

Nonetheless some basic parameters have been developed to help companies identify material issues. AccountAbility, for example, has argued that in order to determine the materiality of particular issues, five tests can be applied.[46] These include considering whether issues are associated with:

– significant direct short-term financial impacts
– specific policy positions that the company has developed
– what peer companies have deemed as material
– stakeholder behaviour and concerns
– societal 'norms' that are developing either through regulation (current and predicted), investment practices or international developments.

Panel 3.4

Public Policy in China

The use of the S&P Global 100 as the universe of companies for the study means that companies from many regions, particularly developing countries, were not included. However, it may be that the approach to lobbying and disclosure of public policy positions differs significantly in different operating environments.

For example, attitudes to the regulation of environmental issues may be different in China. At least, this is the finding of a recent report by WWF,[47] which suggests that compared with the west there is a stronger focus by Chinese companies on the regulatory rather than the voluntary framework.

The report, which studied responses to a questionnaire from over 60 Chinese companies, found that 85% think that there should be stronger rules on environmental transparency and monitoring, with 13% indicating that they were actively advocating stricter standards.

WWF found that the concern that other companies are breaking existing rules and competing unfairly was an important driver for this position — with leadership companies seeking better law enforcement. In addition, companies recognised that the reputation of Chinese business as a whole is damaged by poor performance.

Panel 3.5

Developing Countries

Several companies claim that behind the scenes lobbying is more effective when it remains behind the scenes, often citing examples from developing countries. Certainly we would agree there are specific opportunities for business to engage with governments on sensitive issues (e.g. better governance), where transparency could have unintended negative consequences. However, in general, and given the significant presence of the S&P Global 100 countries in these countries, it is striking how little disclosure there is of government lobbying in the developing world.

Of the companies that do report in this area, the vast majority are in the extractives sector. For example:

— **BP**, **Chevron** and **Total** all mention their roles in areas such as human rights and revenue transparency in developing countries.

— **Total** describes its approach in Burma, while **Chevron** comments on public policy activity in Vietnam, South Africa and Kenya.

— The most coverage by far, however, is given to China, with six companies discussing their roles in helping the government develop effective approaches to issues ranging from intellectual property rights (**Philips**) to sustainable mobility (**Ford**).

International Initiatives

Another area which is mentioned by several companies but hardly discussed in any detail relates to company influence over policies or standards of bodies operating internationally. Such initiatives include the World Bank's Extractive Industries Review or the development of a UN human rights standard for companies.[48]

Companies that do discuss their involvement in such initiatives include:

— **Barclays**, which lists its involvement in the Business Leaders Initiative on Human Rights and the draft UN Norms.

— **Citigroup**, which references its support of the 2005 UN International Year of Microcredit initiative, serving as Advisory Committee Chair.

— **GlaxoSmithKline**, which mentions its support for TRIPS and the Biodiversity Convention.

— **Philips**, which is one of the few companies to make an explicit link between the relative lack of supranational regulations and its active role in bodies such as the United Nations Environment Programme (UNEP).

3.5 A Common Approach

Unlike other areas of reporting, where patterns of good practice took many years to crystallise, companies with the top ratings in this assessment appear to be adopting broadly similar approaches to disclosure of lobbying. Key elements of this common approach include:

— Providing a general commentary on the legitimacy of lobbying and other business perspectives on key legislative issues. Many companies (for example **Bayer**, **Chevron**, **DaimlerChrysler** and **Exxon Mobil**) point to their 'fundamental right and responsibility to participate in the political process' and highlight their efforts to support 'technically and financially sound, appropriate and effective' regulation — or words to this effect.

— Publishing a clear policy prohibiting political contributions. Almost one-quarter of the companies we reviewed made statements banning the practice, although exceptions are often allowed with senior approval, and 'soft money' donations are rarely discussed (see Panel 3.2). **Royal Dutch / Shell** seems to take the toughest stance, banning political payments and explicitly relating them to bribery and corruption.

— Providing a listing of affiliations with business groups focused on corporate responsibility such as **BSR**, **CSR Europe** or the **WBCSD**. Note that few companies also disclose affiliations with industry associations, a point we come back to in the recommendations.

— Publishing detailed policy positions on specific legislative initiatives confronting the company or industry such as trade and market access (for example **Ford** and **HP**) or climate change and the Kyoto Protocol (many companies including **DuPont** and **Swiss Re**).

The consistency of this approach across different companies and industry sectors is likely to be a consequence of the way in which the agenda has been driven (see Section 3.2). Given that much of the energy for greater consistency and transparency has come from external pressure, it is perhaps not surprising that responses are often defensive in tone, with companies affirming their right to lobby and highlighting their membership affiliations as evidence of their commitment to the agenda. This is a point we pick up again in Section 4.

3.6 Recommendations

In spite of continued concerns about corporate lobbying, it is clear that transparency has improved markedly in the last few years. Nonetheless, we believe there are steps companies can and should take to help foster trust and minimise the risks in this area by creating greater transparency and consistency in their lobbying. Figure 3.5 outlines specific recommendations linked to our analysis of companies' current approaches.

Other Actors

While our focus in this report has been on companies, responsibility for fostering a more open and accountable approach to public policy clearly does not lie solely with the corporate sector. Other actors including trade associations and government have critical roles and responsibilities. Indeed, several of our reviewers commented that lobbying transparency by business should be matched by government transparency regarding who they've been lobbied by. NGOs involved in public policy advocacy, too, need to improve their accountability in this area. We have not, however, addressed these groups directly in our research and refer readers to companion publications.[49]

What Would Integrated Look Like?

None of the companies we benchmarked received our top rating of integrated. However, if such a company were to exist, it would likely report on an approach that includes the following elements:

Corporate governance and materiality
— There is a clear **philosophy** and **structure** to the role and objectives of company lobbying including recognition and explanation of the link between overall company principles and the role of lobbying.
— **'Material' issues** are identified through a systematic and transparent process that considers the risks and opportunities deriving from the policy framework, and which involves dialogue with stakeholders.
— The focus is on **public policy activity** broadly defined, including softer forms of influence, efforts beyond home markets and policy at the global level.
— Responsible lobbying is an explicit part of **corporate business principles** and/or specific CR policies.

Transparency
— Companies understand and explain the relationship between **core principles**, **CR objectives** and their **sector-specific regulatory framework**.
— **Policy positions on material issues** are made publicly available, linked to formal submissions to government committees, senior management statements on the issue, support for policy research on the agenda, etc.

Consistency
— **Membership of industry associations** is disclosed, with an explanation of where the company differs from association positions on material issues.
— Company works with other civil society groups on **advocacy around shared public policy goals.**
— Where a company encounters proposed legislation in line with its principles but where lobbies against it are based on the design of specific tools or frameworks, the company's position includes **recommended adaptations** to allow the underlying objective to be met.

Panel 3.6

In spite of continued concerns about corporate lobbying, it is clear that transparency has improved markedly in the last few years.

Recommendations

	1	2	3	4	5
Conclusions	**Transparency is increasingly accepted** A significant number of large companies now acknowledge the need to respond to stakeholder concerns about lobbying.	**Key drivers** Several drivers are in play including public pressure and legislation.	**Disconnects** Public perception of significant disconnects is not addressed in disclosure and/or management approach.	**What gets covered and why** There is a lack of attention to identifying and addressing material issues.	**A common approach** Patterns are emerging in the way that companies report on lobbying although these are primarily defensive in nature.
Recommendations	**Encourage greater transparency across industry more generally** Leading companies, working with trade associations, should encourage and enable peers to become more transparent including by: helping to establish industry-specific best practice frameworks for transparency; supporting trade associations and public affairs consultancies in agreeing and implementing minimum standards around transparency in lobbying.	**As expectations change, work to understand the business drivers for responsible lobbying** Review lobbying practices in the context of rapid change, including greater transparency driven by legislation and an increasing focus on lobbying by investors, NGOs, the media and civil society – especially companies in sectors that have only recently come under scrutiny (e.g. finance, telecommunications and media). Explore new ways to respond to changing expectations by, for example, agreeing policy impact reviews with other stakeholder groups and working to achieve shared policy positions.	**Review potential internal and external inconsistencies** Understand company positions and memberships internally – and assess political and reputational risks arising from them. Communicate positions, making the link from overall company principles to specific CR objectives to lobby-ing in alignment with these objectives. Monitor and report on alignment of lobbying throughout the organisation. Work to ensure consistency with external affiliations and where positions differ, ensure that these differences are clearly communicated.	**Focus on those issues that are material to your business and stakeholders** Identify and explain material policy positions based on company's understanding of the policy framework and societal expectations of sector. Ensure that this system takes into account lobbying related to developing countries and international initiatives. Explain this process and actively report on how lobbying on these issues is aligned with business values and principles.	**Work with peers to develop and improve standardised approaches to transparency** Support processes that are already being developed to foster a 'standard' approach to reporting (e.g. AccountAbility / UN Global Compact Initiative,[50] GRI, etc.) Balance these attempts to foster standardisation with creative approaches to enhanced transparency. Disclose affiliations with industry associations of all types – not just those focused on CR and sustainable development. Move towards an integrated approach to lobbying as described in Panel 3.6, addressing issues of consistency and materiality.

Figure 3.5

Where Next?

4.0

4.1 Creating Competitive Advantages

Our research has shown that significant numbers of companies have responded to the challenge from NGOs, investors and others to be more transparent with regard to lobbying activities. It seems that companies are developing a better understanding of the dimensions of this agenda that contribute to business risk, and how to manage these issues through greater transparency and consistency.

However, as described in Section 3.5, even when transparency is introduced, lobbying still tends to focus on defending existing markets. The problem, we would argue, is that still too few companies seem to consider how CR and related policy activities can support core business strategies.

We've talked about the need for greater transparency in the relations between business and government in order to rebuild trust in both institutions. Greater transparency around lobbying may also be in the direct interests of shareholders. The Center for Political Accountability cites the examples of **Enron** and **WorldCom**, making the case that like the canaries that were once sent into mines to check air quality, lobbying budgets can indicate management quality and business strategy. Where lobbying expenditures are significantly greater than the industry average, as was the case for **Enron** and **WorldCom**, it can suggest a lack of solid business fundamentals.[51]

However, transparency alone is unlikely to deliver societal trust. Business needs to contribute and to be seen to contribute to the strong and effective rules and regulations required for the functioning of free global markets.

This is particularly true in sectors where the growing burden and complexity of regulation requires business involvement in helping design more efficient and effective public policy tools.

Lack of progress will likely mean that business faces a further weakening of trust and ever-growing suspicion over its role in policy formation, as well as ongoing demands to contribute directly to social and environmental solutions. As the *New York Times'* Thomas Friedman argues, no one in the US has more interest in lobbying in favour of some form of national health coverage than **General Motors**, which is being strangled by its health care costs.[52] Strong and effective government policy will help ensure that ultimate responsibility for social and environmental solutions lies firmly with governments, not business.

In adopting leadership positions, companies also associate their brands with progressive stances and generate reputation benefits. As a result, companies may find greater opportunity to work with government and civil society in crafting policy tools that meet shared objectives, are consistent and – crucially important for many companies – provide a solid basis for long-term planning and investment.

4.2 Third Generation Lobbying

As noted, the emerging pattern of lobbying disclosure is primarily defensive in nature. Most of the companies in our survey which have made progress on transparency are pursuing what we would describe as a 'second generation'[53] approach to lobbying (see Figure 4.1).

Three Generations of Corporate Responsibility and Lobbying

Lobbying	First Generation	Second Generation	Third Generation
State of CR	'CR as PR'	CR as a way of managing reputation or operational risk	CR as strategic differentiator
Role of Lobbying	Links between lobbying and CR are rejected	Transparency and consistency supported primarily as part of reputational risk management	Lobbying as an opportunity to drive stronger social and environmental policy in support of core business

Figure 4.1

Here, lobbying transparency is relatively high but the focus appears to be risk management and mitigation, especially in defending controversial policy positions, such as **ExxonMobil** on climate change or **Pfizer** on direct to consumer advertising.

In contrast, companies exercising leadership can switch into a third generation mode that sees CR as a strategic differentiator and recognises the potential for public policy to drive higher standards in support of business activities and wider social and environmental objectives. While this model is a simplification of a complex reality, with most companies taking different approaches at different times, it illustrates an increasingly strategic approach to the interface between CR and public policy activity.

A small group of companies in our survey show elements of a third generation approach. For example:

— **Ford** and **GM** publicise their support for market incentives for fuel-efficient vehicles.

— **IBM** and **Philips** both mention their support for waste recycling.

— Companies including **Swiss Re** and **United Technologies** all mention their support for regulatory frameworks on climate change.

Another interesting example from beyond our benchmark is the **Corporate Leaders Group on Climate Change**. This group, composed of leading businesses operating in the UK including **ABN Amro**, **BP**, **HSBC** and **Royal Dutch / Shell**, argues that government needs to do more to create an enabling framework for business to address climate change.

In a letter to UK Prime Minister Tony Blair, the business leaders call for a strong policy framework that creates a long-term value for carbon emissions reductions and consistently supports and incentivises the development of new technologies. Without such a framework, the business leaders argue, it will not be possible to deliver the step-change in the development of low carbon goods and services that is required.[54]

Other companies outside the S&P Global 100 that are developing a third generation approach include:

— the UK retailer **Marks & Spencer**, which was actively involved in the debate on the REACH proposals in Europe, in order to ensure that the consumer perspective is reflected.

— **Nike**, which has been outspoken in supporting NGO efforts to ensure legislation in the EU and US to shelter the fragile apparel industries in several developing countries from the initial impacts created by the end of the multi-fibre agreement.

— **CFS** in the UK, which flags lobbying as a critical issue in its 2003 *Sustainability Report*, aligning its activity behind its business values and lobbying for higher social and environmental standards. For example, it has worked with the CORE campaign, a coalition of NGOs, to advocate mandatory ethical and environmental reporting in the UK, and has called for the establishment of key performance indicators as the basis of materiality questions in the UK's Operating Financial Review (OFR).

Figure 4.2 illustrates the two different mind-sets that characterise first generation lobbying and the emerging third generation model.

4.3 Final Word

For many of the world's largest companies, lobbying activities are now acknowledged to form part of the CR agenda. For the vast majority of these, the principles at stake are primarily around the *conduct* of their lobbying — being transparent about policy positions and influence and working to ensure that these are consistent with core values and principles. We recognise that this is already a considerable challenge for companies, requiring significant changes in the way lobbying is understood and managed, and we hope our recommendations are useful to those businesses that have embarked on this road.

For most the wider issue of *content* — what the company is actually advocating, and how these positions are developed — remains off-limits. However, we are convinced not only that this will have to change if corporate responsibility is to make a meaningful contribution to addressing society's major challenges, but also that it is in the long-term interests of business to adopt this wider view.

Companies exercising leadership can switch into a third generation mode that sees CR as a strategic differentiator.

Making the Leap from First Generation to Third Generation Lobbying

Lobbying	First Generation	Third Generation	Examples
Mission	**Defend Existing Markets**	**Enable New Markets**	
Features	**Following** Respond to proposed regulations or policy changes	**Leading** Raise the standards for the industry	**Corporate Leaders Group's** statement encouraging the UK government to maintain its leadership on climate change
	Defensive Defend the status quo	**Strategic** Assess opportunities where public policy in support of CR can act as a market enabler	**Marks & Spencer's** vocal backing for REACH legislation and its support for the elimination of harmful chemicals from consumer products
	Obscured Keep company name and brand out of policy limelight, through non-disclosure, use of industry associations, ambiguous language	**Transparent** Actively identify clearly articulated public policy positions with company brand and values	**CFS's** clear flagging of lobbying in its 2003 *Sustainability Report*, aligning its activity behind its business values, linked to the company's brand
	Closed Debate public policy safely behind closed company doors, or in industry fora	**Open** Invite external stakeholders into policy discussions and collaborate on common objectives	**Lafarge's** positioning on lobbying including involving stakeholders in policy discussions and publicising stakeholder perspectives on its website
	Narrow Use participation in public policy process to pursue exclusively company-specific objectives	**Broad** Act as corporate citizen when participating in multi-stakeholder public affairs dialogue	**Shell's** sharing of the outcomes of its scenarios work as a neutral input into government policy discussions

Figure 4.2

Endnotes

1 Andrew Revkin, 'Former Bush Aide Who Edited Reports is Hired by Exxon', *New York Times*, 15 June 2005.

2 Katherine Griffiths, 'BP Shows Two Faces as it Fights US Bill to Cut CO_2 Emissions', *Independent*, 12 June 2005.

3 Throughout this report we use corporate responsibility or CR to refer to a business approach embodying open and transparent business practices, ethical behaviour, respect for stakeholders and a commitment to add economic, social and environmental value. Other terms such as corporate social responsibility or sustainability are used by others in this sense.

4 Reporting rates in small- and medium-sized companies are typically much lower than in the largest multinationals.

5 See SustainAbility and UN Global Compact, *Gearing Up: From Corporate Responsibility to Good Governance and Scalable Solutions*, 2004, for a more complete discussion of progress on CR and the gaps that need to be addressed if the world is to make significant progress on global challenges. The report highlights the need for business to help evolve new policy frameworks – which in turn requires greater transparency and external engagement.

6 Corporate Leaders Group on Climate Change, letter to UK Prime Minister Tony Blair, 27 May 2005. www3.cpi.cam.ac.uk/images/stories/downloads/clg%20letter.pdf

7 Seb Beloe (SustainAbility) and Jules Peck (now with WWF but in 2000 working for GPC), co-authors of this report, were also co-authors of *Politics and Persuasion* (SustainAbility and GPC, *Politics and Persuasion: Corporate Influence on Sustainable Development Policy*, 2000).

8 The Center for Political Accountability has produced a benchmark of corporate approaches, but focused primarily on political contributions: Center for Political Accountability, *The Green Canary: Alerting Shareholders and Protecting their Investments*, 2005.

9 See, for example, Mark Goyder, 'Why the Business of Business is More than Business', *Ethical Corporation*, 21 June 2005.

10 Revkin (2005).

11 For example, 'Edelman Fifth Annual Trust Barometer, Summary of Findings', 9 January 2004 and Globescan and World Economic Forum, 'Global Survey on Trust', 2004. www.edelman.co.kr/people/ez2000/system/db/edeldata/upload/8/1074046712/edelman_2004_trust_barometer_findings.pdf

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13 Amanda Griscom Little, 'Foreign Corporations Spend Big to Influence US Environmental Law', *Grist Magazine*, 3 June 2005.

14 Siim Kallas, 'The Need for a European Transparency Initiative', speech to the European Foundation for Management, Nottingham Business School, 3 March 2005.

15 www.corporateeurope.org

16 In addition to Greenpeace, this project was also supported by the Business Council for Sustainable Energy, Forum for the Future, SustainAbility and WWF-UK.

17 Simon Caulkin and Joanna Collins with WWF et al., *The Private Life of Public Affairs*, Green Alliance, 2003.

18 International Chemicals Secretariat for WWF, *Cry Wolf: Predicted Costs by Industry in the Face of New Regulations*, April 2004.

19 Deborah Doane, *From Red Tape to Road Signs: Redefining Regulation and its Purpose*, CORE Coalition, 2004.

20 Roger Cowe and Jonathon Porritt, *Government's Business: Enabling Corporate Responsibility*, Forum for the Future, 2002.

21 www.jembendell.com/lw2002/autumn6.html www.jembendell.com/lw2003/summer3.html

22 David Lascelles, *The Ethics of Influence: Political Donations and Lobbying*, Institute of Business Ethics, 2005.

23 Kallas (2005).

24 www.corporateeurope.org/alter-eu.html

25 Figures from the Center for Public Integrity, based on Senate Office of Public Records filings which include figures dating back to 1998. www.publicintegrity.org/lobby/top.aspx?act=topcompanies and http://sopr.senate.gov/

26 To be eligible for inclusion on the S&P Global 100, a company must be a member of the S&P Global 1200, have a minimum float-adjusted market cap of US$5 billion and derive a substantial portion of its operating income, assets and employees from multiple countries. www2.standardandpoors.com/servlet/Satellite?pagename=sp/Page/IndicesIndexPg&r=1&l=EN&b=4&s=6&ig=48&i=140&xcd=GBL100

27 As new CR reports are released regularly, it was necessary to set a cut-off date for report collection. This was 1 May 2005. We are, however, aware that some CR reports which cover lobbying to some degree have been released since this date, such as those from GE and Vodafone.

28 This methodology has been developed over the course of a decade of benchmarking environmental and CR reports, and has been used most recently in the 2004 analysis of reporting, SustainAbility, UNEP and Standard & Poors, *Risk & Opportunity: Best Practice in Non-Financial Reporting*, 2004. www.sustainability.com/insight/research-article.asp?id=247

29 SustainAbility, UNEP and Standard & Poors (2004).

30 For example, these companies are all members of the Dow Jones Sustainability World Index as of September 2004.

31 Lascelles (2005).

32 The sector groupings here are those used in the S&P Global 100.

33 Media is another sector with enormous indirect impacts. Of four media companies in our benchmark, Time Warner was the only one to have any information on lobbying. See also point 7 of the Media Manifesto in SustainAbility/WWF, *Through The Looking Glass: Corporate Responsibility in the Media and Entertainment Sector*, 2004. www.wwf.org.uk/filelibrary/pdf/looking_glass_0105.pdf

[34] See, for example, Commitment 6 of the Collevecchio Declaration, signed by over 100 NGOs in early 2003 and Dennis Pamlin (ed.), *Sustainability at the Speed of Light: Opportunities and Challenges for Tomorrow's Society*, WWF Sweden, 2002. www.wwf.org.uk/filelibrary/pdf/collevecchio_dec_0105.pdf

[35] In research on corporate reporting it was found that Japanese companies tend to score poorly on social issues. See SustainAbility, UNEP and Standard & Poors (2004).

[36] In December 2004, The Corner House began legal proceedings against the UK government on the basis that the Export Credits Guarantee Department (ECGD) had significantly weakened anti-corruption rules as a result of lobbying by companies such as Airbus, BAE Systems and Rolls-Royce. The claim was that the failure to consult other interested organisations was a breach of basic public law standards of fairness and the ECGD's own consultation policy. The government settled out of court, agreeing to a full public consultation on its anti-corruption rules.

[37] Soft money involves providing support for political candidates through means other than direct donations including, for example, donations to independent political committees such as 527 organisations.

[38] Center for Public Integrity. www.publicintegrity.org

[39] 'Preliminary Report on the Global Compact Leaders Summit', UN Global Compact Office, 2 July 2004. www.unglobalcompact.org

[40] Katherine Griffiths (2005).

[41] Center for Political Accountability (2005).

[42] This point was also powerfully underscored at the launch of a report by the Institute of Business Ethics which, according to the sponsor of the report, found 'surprisingly few companies with policies or codes of conduct for their lobbying activities', Lascelles (2005).

[43] This information was published in GE's *2005 Citizenship Report*, published in May 2005, and therefore was not included in the benchmark assessment.

[44] Caulkin and Collins (2003).

[45] SustainAbility, UNEP and Standard & Poors (2004).

[46] Simon Zadek and Mira Merme, *Redefining Materiality: Practice and Public Policy for Effective Corporate Reporting*, AccountAbility, 2003.

[47] Peng Lei, Baijin Long and Dennis Pamlin, *Chinese Companies in the 21st Century: Helping or Destroying the Planet? Corporate Social Responsibility and Beyond*, WWF, April 2005.

[48] The United Nations Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights. www1.umn.edu/humanrts/links/norms-aug2003.html

[49] See, for example, Caulkin and Collins (2003) for recommendations for government and trade associations, and SustainAbility, UN Global Compact and UNEP, *The 21st Century NGO: In the Market for Change*, 2003, for recommendations on NGO accountability.

[50] AccountAbility and UN Global Compact, *Responsible Lobbying*, forthcoming (September 2005).

[51] Center for Political Accountability (2005).

[52] Thomas L. Friedman, 'CEO's MIA', *New York Times*, 25 May 2005.

[53] The terms first, second and third generation CR are adaptations of the three generations of corporate citizenship discussed by Simon Zadek in *Third Generation Corporate Citizenship: Public Policy and Business in Society*, Foreign Policy Centre, 2001. A similar concept is presented by Michael Skapinker in his article 'Nike Ushers in a New Age of Corporate Responsibility', *Financial Times*, 20 April 2005.

[54] The other signatories were AWG, BAA, Cisco Systems, F&C Asset Management, John Lewis Partnership, Johnson Matthey, Scottish Power, Standard Chartered Bank and Sun Microsystems.

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