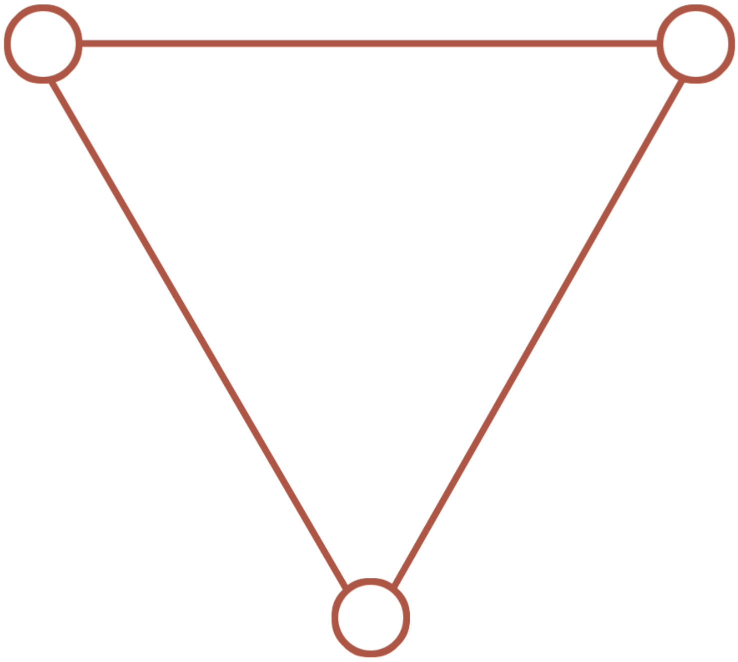
The Copenhagen Charter

a management guide to stakeholder reporting



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The Copenhagen Charter

The Copenhagen Charter is a management guide to stakeholder dialogue and reporting. It aims to set out, briefly and concisely, the most important motives and principles involved.

Part I of the Charter focuses on the effects of stakeholder reporting in terms of internal and external value creation for the company and its key stakeholders. This creation of value requires that the processes of stakeholder dialogue and reporting are integrated in the strategic management of the company, and embedded in the company's mission, vision and values.

Part II highlights the principles of stakeholder dialogue and reporting, offering practical recommendations on how to manage the three key process elements: laying the groundwork, embedding the processes, and communicating the results.

To be of real value to the company and its key stakeholders, both the processes and the product of stakeholder dialogue and reporting must be credible. Part III of the Charter takes a closer look at three important elements of credibility: accounting principles, information relevance and verification.

Key terms used in The Copenhagen Charter are defined in the glossary on page 10.

The Copenhagen Charter is published by the Danish offices of Ernst & Young, KPMG, and PricewaterhouseCoopers, and the House of Mandag Morgen.

It is endorsed by and draws on the experience of a select group of Danish companies with practical experience of stakeholder dialogue and reporting. The companies are presented on the back of the Charter.

The Copenhagen Charter is launched at *Building Stakeholder Relations - the third international conference on social and ethical accounting, auditing and reporting* taking place in Copenhagen, Denmark, on November 14 - 16, 1999. The conference is co-hosted and organised by the Institute of Social and Ethical AccountAbility, Novo Nordisk A/S, The Copenhagen Centre, Copenhagen Business School and the House of Mandag Morgen. These organisations have also contributed valuable input to the development of The Copenhagen Charter.

Part I: The effects of stakeholder reporting

Companies that commit to stakeholder reporting do so with the aim of securing balanced and sustainable value creation for all key stakeholders. The main motivation for management is to create both internal and external value for the company and for its key stakeholders.

For stakeholder reporting to create real value for the company, the processes of stakeholder dialogue and reporting must be embedded throughout the organisation, in the mission, vision and values of the company, and in management and corporate governance systems. The internal and external value creation resulting from stakeholder reporting is described in the following.

Internal value creation

Stakeholder reporting creates internal value because it is not just an accounting method. It is also a dialogue-based and values-driven management method aiming to build and manage effective stakeholder relations.

Stakeholder reporting often builds on well-known management systems and procedures already adopted by many companies. These can be management information systems, quality management systems and various reporting schemes to collect and report financial and non-financial data on the company's performance and administration of social, ethical, intellectual and environmental resources.

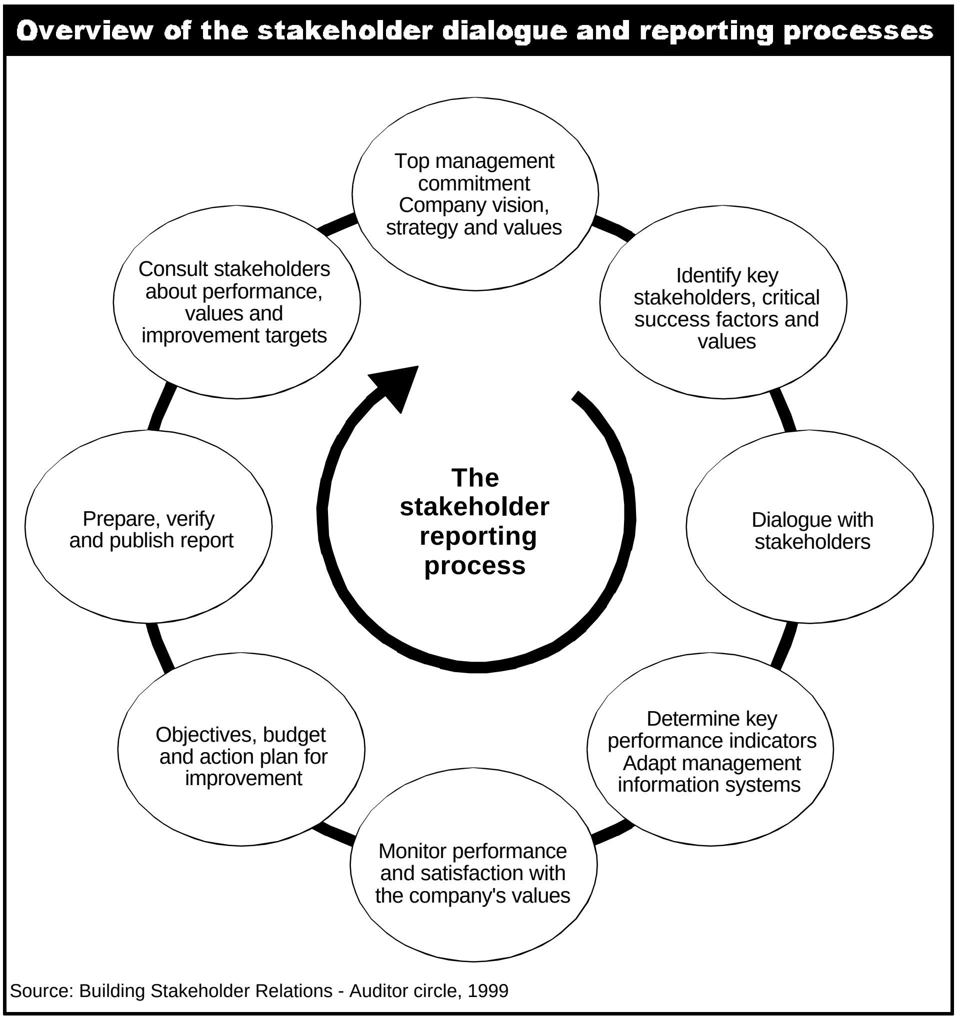
Response to new management challenges

Stakeholder reporting is a core building block in implementing values-based management in an on-going dialogue with stakeholders. Values-based management requires that the company's values and strategies form equal and complementary elements in the company's efforts to achieve its goals, mission, and ultimately its vision.

The company's mission, vision and values form the foundation for stakeholder reporting, but are in turn also a product of the process: stakeholder reporting allows management to test that the mission, vision and values of the company match the expectations, demands and values of key stakeholders. By creating and sustaining this match of values between the company and its key stakeholders, management builds corporate identity and a sense of belonging as well as loyalty in its most important relationships.

Figure 1 gives an overview of the processes of stakeholder reporting, illustrating the circular nature of the processes and their interconnection. The inner loop signifies the link between stakeholder reporting and the strategic management of the company through a continuous feedback into the underlying vision, strategy and values of the company. This feedback process ensures that stakeholder reporting is embedded in the organisation, and that the values and expectations of key stakeholders are reflected in the company's understanding of itself, its mission, and its values.

Figure 1:
The process of stakeholder reporting builds on and feeds back into the vision, strategy and values of the company



Strategic information system

Internal value is created in those activities and systems that are implemented on the basis of the knowledge and information collected through stakeholder reporting. Used as an internal information and management system, stakeholder reporting can support and improve corporate governance systems.

Stakeholder reporting is a significant strategic tool for collecting and using knowledge and information from stakeholders. Successful management requires maximum quality information input from key stakeholder groups, and stakeholder dialogue and reporting offers management a rich source of information on opportunities as well as potential conflicts.

External value creation

Dialogue and communication

Stakeholder reporting is used by management as a valuable tool for improving dialogue and communication with the company's stakeholders, providing a foundation for trust and openness to change. It allows management to communicate a more complete picture of the company to its stakeholders, to improve both shareholder and stakeholder value, and to account for its performance in living up to values that are important to key stakeholders.

Traditional stakeholder groups, such as investors, are today demanding more information to assess a company's future potential - information about e.g. environmental, social, and ethical issues, and about intellectual and human capital valuation.

At the same time, "new" groups of stakeholders, such as NGOs and other ideological organisations, are gaining influence, making specific demands on corporate behaviour and holding companies accountable for their actions. Through stakeholder reporting, the company can protect and ensure a continued "license to operate", minimising the risk of unexpected negative reactions.

Reputation management

Stakeholder reporting creates external value for the company in the form of stronger stakeholder relationships and an improved corporate reputation. This gives the company a competitive advantage in some of the most significant challenges facing management today - challenges that include attracting and motivating the best employees, building customer loyalty, and securing access to investor capital.

Stakeholder reporting can also be seen as a form of "insurance policy" protecting the company's reputation, thereby minimising the risk of potential financial losses in the future. A company's reputation is a valuable intangible asset, and improvements or losses in reputation can have a very significant and tangible impact on financial results.

"Early warning" system

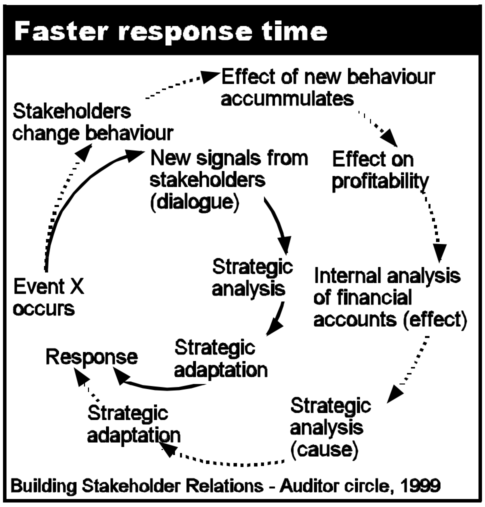


Figure 2:
Stakeholder reporting allows management to react faster to changes in stakeholders' behaviour - before they impact the bottom line

Stakeholder reporting is a valuable business intelligence and "early warning" system. It provides management with a set of strategic tools and indicators to allow for a fast response to potential opportunities and conflicts (figure 2).

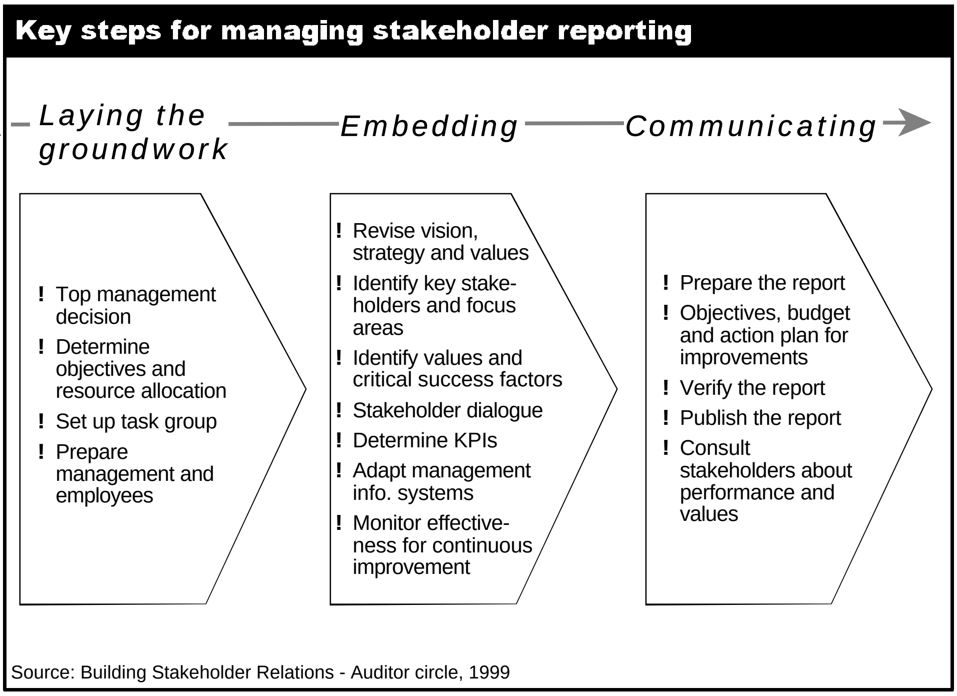
The inner loop in figure 2 describes how an improved information system allows the company to react faster to events in its surrounding environment. Relying on traditional financial accounts as information systems, as illustrated in the outer loop, there is a risk that management cannot react to changes in stakeholder behaviour until these changes show up on the bottom line.

Part II: Principles of stakeholder reporting

The principles given below constitute a practical approach to managing stakeholder reporting with the aim of ensuring maximum internal as well as external value creation.

Key steps for managing stakeholder dialogue and reporting are illustrated in figure 3. In the following, important principles and recommendations are given for each of the three central process elements: laying the groundwork, embedding, and communicating.

Figure 3:
Laying the groundwork, embedding and communicating are the three main process elements of stakeholder reporting



Laying the groundwork

The decision to commit to stakeholder reporting must be made by top management. Top management commitment is vital to initiate and support the process of stakeholder reporting.

Before making the commitment, management must determine whether it is ready to handle - internally - and report - externally - on *all* issues, including negative ones, that may be brought to the surface. Management should be aware that particularly the first reporting cycles are a learning process for management as well as for the organisation as a whole.

Management must determine objectives, scope and resource allocation for the process. The starting point should be the mission, strategies and critical success factors of the company, and a careful consideration of how stakeholder dialogue and reporting will create value for the company.

A specific task group should be given responsibility for designing, implementing and overseeing the process. This task group should include one or more people who have the ability to motivate the rest of the organisation and ensure backing for the process.

To ensure support for the process throughout the organisation, ***management as well as employees must be prepared for organisational changes*** driven by the process. It is important to be modest in launching the process so as to avoid generating expectations among stakeholders that will not later be fulfilled.

Embedding

For the principles of stakeholder reporting to be embedded in the company, ***it may be necessary to revise and specify the company's vision, strategy and values***. Vision statements should reflect the key priorities towards which management intends to work.

A key element in stakeholder reporting is to identify and prioritise among stakeholders and focus areas. Management should identify its key stakeholders - those stakeholders that are most important and have the greatest influence on company activities - and direct its dialogue and reporting efforts towards these. The identification of key stakeholders may be done on the basis of an interest/influence matrix as shown in figure 4.

Figure 4:
Identification of key stakeholders and focus areas must take into account changes in interest and influence over time

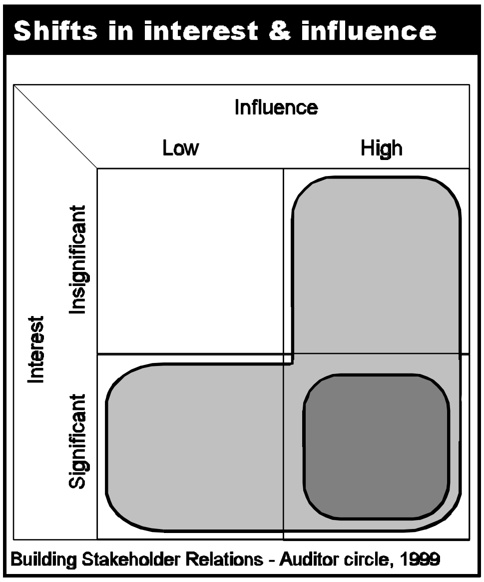


Figure 4 also illustrates that management should identify not only the obvious "significant interest/ high influence" stakeholders, but also, for example, those who have high influence but low (apparent) interest - such as special interest groups, ideological organisations and the media.

Following identification of key stakeholders, management must determine which of the key stakeholder groups to include in the present dialogue and reporting cycle. Reporting efforts should be focused on the chosen key stakeholder groups' main areas of interest relating to the company's activities. These areas can be determined in dialogue with stakeholders, using focus group interviews or other well-established dialogue methods.

Critical success factors must be identified for each chosen stakeholder group and focus area. The critical success factors should be within the company's own sphere of influence. These are the factors to be measured, managed, and reported on through specific key performance indicators.

Consultation and dialogue with stakeholders provides vital input to the process by informing management and the task group of stakeholders' expectations, demands and values. Various approaches to stakeholder consultation and dialogue can be used, such as focus group interviews and dialogue meetings with representatives of key stakeholders. The consultations may show a need to re-evaluate the company's vision, strategy and values, as well as the critical success factors.

Management must determine key performance indicators (KPIs). KPIs form the substance of the stakeholder report because they reflect the performance of management in living up to stakeholder values and expectations.

The choice of indicators should reflect strategic management priorities, as well as a management commitment to follow up on the results, and report on positive as well as negative developments in the indicators in later reports.

KPIs should be meaningful, clear, well-defined, and measurable. The indicators must be integrated into management systems and registered on a regular basis.

Measurement and information systems must be adapted or set up to collect and monitor data relevant to the chosen indicators. These systems can take the form of e.g. information databases or stakeholder dialogue methods. Through surveys of key stakeholder groups, management can measure its performance related to the KPIs and the importance of the indicators.

The effectiveness of the process should be monitored for continuous improvement and specific responsibility allocated for monitoring the process, as well as for following up on the collected data.

Communicating

Prepare the report. The stakeholder report demonstrates the performance of management related to the values of the company and its key stakeholders. Internal and external communication of the results of the measurement and dialogue processes must be consistent and co-ordinated.
In form and structure, the stakeholder report should be focused and prioritised according to those indicators and values that are of interest and high importance to the company and its key stakeholders.

Management must determine the objectives, budget, and action plan for improvements in the company's performance. The objectives must be clear, realistic and measurable. The budget can be drawn up both in terms of KPIs, to set target goals for indicators in the next reporting cycle, and in terms of financial resources for following up on improvement targets and implementing the action plan.

The credibility of the stakeholder report may be enhanced through independent verification. Requirements for verification are described in part III of this Charter.

Publish the report. The report may include a brief presentation of the company, an overview of the market in which the company operates, its strategy and values, operational actions, targets and results, as well as accounting principles and the verification statement.

Consultation and dialogue with stakeholders provides management with an evaluation of the process and its results, and possibly also concrete follow-up proposals. It also provides valuable stakeholder input for the next round of dialogue and reporting cycles.

Part III: Credibility in stakeholder reporting

Stakeholder reporting must be credible if it is to be of value to the company and its key stakeholders. Ensuring that both the processes of dialogue and reporting, and the product - the report - are credible requires careful consideration of three important elements of credibility: accounting principles, information relevance and verification.

Accounting principles

Because of the highly individualised nature of stakeholder reports, readers must be supplied with information on the accounting principles underlying the results. This includes information on e.g. the dialogue processes, data sources and statistical methods employed.

It is particularly important to provide information on any changes in accounting or data measurement principles over time to allow for comparisons in performance. Internal benchmarking figures showing developments in the company's performance over time can supplement external benchmarking against other companies.

Information relevance

The information supplied in the report must be relevant to the subject matter. When choosing key performance indicators, some important factors to consider are the understandability as well as the completeness of the data.

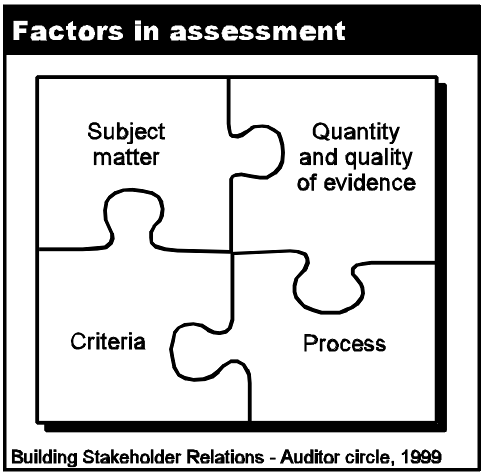
Changes in data and in key performance indicators over time should be documented and explained in the report.

The report may include negative information about the company and its performance relative to key stakeholders. Management must be prepared to deal with the publication of such results, as the credibility of the report - and of the company - may be undermined if negative information is intentionally left out.

Verification

The responsibility for the quality and credibility of stakeholder reporting ultimately rests with management. However, both quality and credibility may be enhanced by obtaining verification of the processes and results from an independent party. The independent verifier should be competent to critically assess the overall process, including management's choice of accounting and reporting methods.

Figure 5:
The four factors weighing in the verifier's conclusion about the stakeholder report



The verification process for a stakeholder report differs from the traditional financial verification. As illustrated in figure 5, the verifier reaches a conclusion about the stakeholder report by assessing the relationship between four factors: the subject matter, the criteria used in the report, the process, and the quantity and quality of evidence.

Glossary of key terms

Stakeholders are those groups of individuals, organisations, or companies that affect and/or are affected by a company, for example shareholders, customers/ clients, employees, business partners, NGOs, and the local community.

The term ***company*** is used in this Charter to denote public, private and voluntary sector organisations.

Stakeholder reporting is the process of reporting about the company's creation of value for its key stakeholders. Stakeholder reporting is the responsibility of management and is based on dialogue with stakeholders.

Values-based management is defined as managing through shared visions, values and goals.

Corporate governance systems are broadly defined as the policies and practices that companies employ to fulfill their responsibilities to key stakeholders.

Critical success factors are the factors or value drivers that are essential in order to support the company's strategic objectives and vision statements.

A ***key performance indicator*** (KPI) is a particular ratio or characteristic used to measure output or outcome. KPIs can vary fro m hard, quantitative data to more qualitative indicators reflecting values.

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The Copenhagen Charter is endorsed by and draws on the experience of a group of Danish public and private companies with practical experience of stakeholder dialogue and reporting:

Centralsygehuset i Næstved, *County hospital*

Chr. Hansen Group, *Life Science*

Coloplast, *Health care products & services*

Dansk Shell, *Energy*

DSB, *Danish State Railways*

Falck, *Safety and security*

Middelfart Sparekasse, *Savings bank*

Post Danmark, *Postal services*

RAMBØLL, *Engineering and consulting*

Realkredit Danmark, *Mortgage credit institution*

Told & Skattestyrelsen, *Danish customs and tax administration*