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## Principles for Accountable Leadership — The AA1000 Series

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*AccountAbility's mission is to promote accountability for sustainable development. The AA1000 Series of standards are an innovative and ground-breaking series of standards aimed at helping leadership organisations understand, respond to and benefit from sustainability challenges. They have been used by some of the world's biggest and most progressive organisations to build sustainability into core decision making. They are not tick-box standards but principles-based, and therefore require leadership, commitment and understanding.*

# **PRINCIPLES FOR ACCOUNTABLE LEADERSHIP – THE AA1000 SERIES**

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## **The Need for a New Leadership Perspective**

In recent years, global society has witnessed a rapidly changing world bringing about both new opportunities and new challenges. Nowhere is this more obvious than at the interface of business and society.

Globalization and the increasing reach of multinational business, the explosion of information communication technology, the emergence of liberal democracies and powerful civil society groups, as well as the increasing prominence of emerging economies such as China and India have all contributed to a new landscape of greater interdependence and interconnectedness.

As our understanding of the interconnectedness increases, we are realigning the way we see challenges such as poverty, pollution, human rights and healthcare. These are no longer seen as charitable issues to be addressed by a dedicated few but rather societal problems

that present both risks and opportunities for business and must therefore be built into strategic planning.

This understanding has led to a shift in thinking and a growing appreciation that a focus purely on financial outcomes is insufficient to understand, benefit from and ultimately overcome these challenges. Leading businesses now understand this and are actively looking at ways to both address these difficult issues and benefit from doing so. These foresighted organisations are renegotiating and realigning the boundaries of their accountability. The new leadership perspective requires business to shift from viewing sustainable development as a matter of compliance to one of value generation. It is what they do in achieving success rather than what they avoid doing.

Leadership organisations understand that addressing this leadership challenge can only be achieved through engagement with a multitude of internal and external stakeholders. Such dialogue and collaboration enables better identification and understanding of how issues affect a business and its stakeholders and ensures that decisions are made with a greater appreciation of the context.

Reconsidering the role of business in this changing landscape has implications for leadership, and requires a re-thinking thereof. Today's leaders have to engage, understand and respond to a multitude of stakeholders, with a range of perspectives and concerns. Today leadership means building long-term relationships and partnerships which create value for a much wider group of interested parties than previous approaches have done.

## **Principled, Accountable and Collaborative Leaders**

As business renegotiates and realigns the boundaries of its accountability there is a need for more principled and value-based leadership.

Leaders have to carry people with them. This requires them to have a set of values with which people can identify and in which they can believe - principles which will help shape the way an organisation operates and connects with its surrounding society. If organisations are to achieve accountable leadership, they will need new frameworks to help them identify, understand and respond to strategic risks and opportunities. The AccountAbility Principles and the AA1000 Series of standards provide a basis for such principled leadership.

Principles and values alone are not enough. Leaders must be accountable for their actions and the impact of these actions on a whole range of affected stakeholders. Organisations will need to evaluate the appropriateness and effectiveness of their responses and communicate this to a wider set of stakeholders than they have done previously. Transparency is a necessary condition for accountable leadership, but the focus on improving performance must not be lost in the push for greater transparency.

In accepting their role in addressing global challenges, leaders must recognize that they cannot act alone. They will not be able to identify or understand the issues adequately and certainly won't be able to respond sufficiently. Values-based leaders understand the importance of collaboration – with governments, NGOs and even competitors.

*“Globalization is forcing changes in how people collaborate in a fundamental way. If we are interconnected and the world is interconnected, the only way for the world to work is to have a common set of values. We have no option but to work together.”*

— Former British Prime Minister, Tony Blair

Accountable leadership is crucial in any emerging area and has been fundamental to many of the developments and achievements in the area of Corporate Responsibility or Sustainability. However, isolated leadership organisations are not enough, even if that leadership is principled, accountable and collaborative. Leadership may be able highlight possible solutions but it will not solve the problem without going to scale. So as the sustainability challenges continue to deepen, leadership must not just focus on identifying the solution to tomorrow’s problems but prioritise how to mainstream that solution as quickly as possible, whether it be through better regulation for financial markets, carbon trading schemes to combat climate change, or new and cheaper products to give poorer people access to services many of us take for granted. Leadership must deliver innovation at scale or global sustainability challenges will remain.

## **The AA1000 Series of Standards**

It is clear that leadership comes not only from people but from institutions, standards, research and other innovations. These types of measures are helping organisations to understand and navigate this minefield of seeming ever increasing responsibilities.

For any business faced with a host of sustainability challenges, there are a series of questions that are continually being asked, but two of the most common are “What issues should I be concerned with?” and “How can I measure and evaluate the way in which I deal with these issues?” The AA1000 Series of standards is a set of principles-based standards aimed at helping leaders better comprehend these challenges.

As sustainability issues are now so obviously financially material as well as material environmentally, socially and economically, it is the way in which businesses deal with diverse non-financials (such as customer service or climate change) that drives reputation, innovation and, in the end, profitability. The AA1000 AccountAbility Principles provide a framework that helps organisations move beyond a compliance approach to these issues and starts seeing them as value drivers. The Principles are outcome orientated and embed continuous improvement in organisations leading to improved processes and ultimately more accountable performance.

The AccountAbility Principles are the foundation for the other two standards in the series: the AA1000 Stakeholder Engagement Standard and the AA1000 Assurance Standard. The flexibility of the principles means that a organisations can use the values they articulate and adapt them to the needs of their context. Doing so requires commitment, understanding and

leadership, as application varies depending on time, context and organisation. These standards are certainly not for those for whom compliance is king.

Although the AA1000 Series of standards are clearly leadership standards, they are not just for leadership organisations. These principles can be universally applied, and since they are centered on continuous improvement rather than compliance, are of value to organisations at any scale and in any context.

The AA1000 Series of standards are voluntary and are created through a highly legitimate multi-stakeholder process, which aims to allow all voices and comments to be heard. The most recent revisions took place through international consultations and a groundbreaking online wiki platform. This wiki platform broke the mould for standard setting, increasing both the access and transparency of the process.

## **The Accountability Principles**

The AccountAbility Principles are the bedrock of the AA1000 Series of standards. Previously they were incorporated into the individual standards, however, during the recent revision of the AA1000 Assurance Standard, finalized in October 2008, it was decided that they would be given additional importance and focus through a dedicated document and so the AA1000 AccountAbility Principles Standard, or AA1000APS (2008), was created.

Organisations use the AccountAbility Principles to develop an accountable and strategic response to sustainability. The basic premise is that an accountable organisation will take action to:

- establish a strategy based on a comprehensive and balanced understanding of, and response to, material issues and stakeholder issues and concerns;
- establish goals and standards against which the strategy and associated performance can be managed and judged; and
- disclose credible information about strategy, goals, standards and performance to those who base their actions and decisions on this information.

The value of the AccountAbility Principles lies in their comprehensive coverage and the flexibility of their application. They demand that an organisation actively engages with its stakeholders, fully identifies and understands the sustainability issues that will have an impact on its performance (including economic, environmental, social and longer term financial performance) and then uses this understanding to develop responsible business strategies and performance objectives.

Being principles rather than prescriptive rules, they allow the organisation to focus on what is material to its own vision, and provide a framework for identifying and acting on real opportunities as well as managing non-financial risk and compliance. They do not provide a tick-box approach to sustainability, nor do they highlight key issues and responses to which all businesses must adhere.

### ***Foundation Principle of Inclusivity***

For an organisation that accepts its accountability to those on whom it has an impact and who have an impact on it, *inclusivity* is the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.

The commitment to inclusivity has long been the bedrock of the AA1000 Series and standards and it retains that position of primacy in the 2008 standard. Inclusivity is much more than a stakeholder engagement process as it is the organisation enabling stakeholders to participate throughout the decision making process. The principle of Inclusivity is supported by the AA1000 Stakeholder Engagement Standard which provides a flexible framework for planning, implementing and evaluating stakeholder engagement. The concept of inclusivity is at the heart of all values-based leadership, the importance of listening to and responding to the concerns of others whether they are powerful or weak will remain of fundamental importance.

In 1999, when Monsanto came under pressure in the UK and Europe for its promotion of genetically modified products, it was the fact that it failed to be inclusive by listening and responding to its stakeholders' concerns that led to its financial failure. Monsanto perceived the issue as a technical matter but by not engaging failed to understand the other dynamics at play.

*"We have irritated and antagonised more people than we have persuaded. Our confidence in biotechnology has been widely seen as arrogance and condescension because we thought it was our job to persuade. But too often we forgot to listen."*

— Bob Shapiro, Monsanto

The practice of inclusivity requires organisations identify and understand stakeholders, their views and expectations. This process requires robust and balanced strategies for engaging stakeholders in decision making and are tailored to their capacities for engagement. Inclusivity is supported by the AA1000 Stakeholder Engagement Standard which provides a flexible framework for planning, implementing and evaluating stakeholder engagement, and the UNEP Toolkit on Stakeholder Engagement developed with AccountAbility and Stakeholder Research Associates.

### ***Principle of Materiality***

The principle of *materiality* is about determining the relevance and significance of an issue to an organisation and its stakeholders. A material issue is an issue that will influence the decisions, actions and performance of an organisation or its stakeholders. It is about ensuring business focus on issues that have the potential for material impact on the value of the business and its stakeholders. Whether *Wal-Mart* uses *Fairtrade* coffee in its staff canteens is certainly important to the *Fairtrade* movement, to its coffee suppliers and to some of the firm's employees. But it is highly unlikely that this matter is material to Wal-

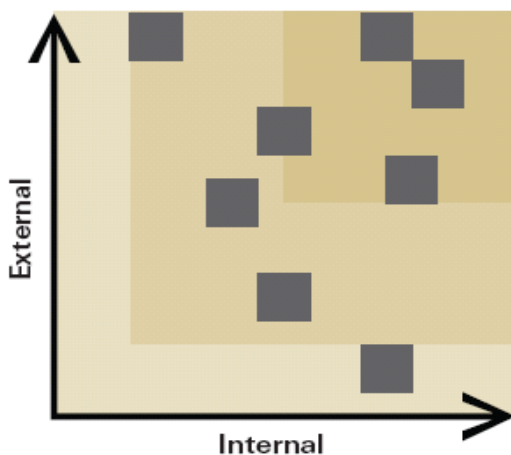
Mart. On the other hand, although Wal-Mart's position on its environmental impact started from a defensive posture, it has become increasingly integrated into its strategic thinking. The decision to invest \$500 million a year in energy efficiency improvements is now a core part of its overall strategy for driving down costs.



Diagram 1

The principle of materiality has been revised and updated in the recent revision of the AA1000 AccountAbility Principles to embrace developments in understanding. Materiality now links strongly to business performance through analysis of both the relevance and significance of issues, which will help organisations become more strategic in dealing with sustainability issues. Stakeholder concerns remain at the heart of materiality and this requires organisations to take a longer term and deeper view of materiality. The diagram above, taken from *The Materiality Report*, published by AccountAbility, highlights that materiality is at the centre of links between corporate strategy, engagement, reporting and performance.

Diagram 2



Determining what issues are material is crucial to the success of an organisation's ability to tackle sustainability challenges in a way that adds value to the company and external stakeholders. The practice of materiality is highly individual and complex but Diagram 2 shows in simplistic form, a viable way of identifying what issues are material. By assigning scores relating the significance to relevant issues to both internal and external stakeholders based on clear criteria, an organisation can develop a matrix like the one above. By then developing thresholds, an organisation can decide what is really material to its operations and its stakeholders and what is slightly less important.

## ***Principle of Responsiveness***

The principle of *responsiveness* concerns an organisation's response to stakeholder issues that affect its sustainability performance and is realised through decisions, actions and performance, as well as communication with stakeholders.

The principle of responsiveness is about taking action and communicating. Responsiveness places emphasis on the understanding behind the processes used to develop responses as well as the responses themselves. As communication is part of responsiveness, this principle also links to the use of reporting frameworks and guidelines.

The response to an issue may develop over time as an issue matures and stakeholders' expectations change. *Gap's* response to labour standards have developed over time as stakeholder expectations have developed and the impact on its business has been better understood. Initially responding through codes of conduct, this has developed into comprehensive audits and collaborative initiatives to ensure not only are standards met, but they are met in a way to improve conditions and company performance on an ongoing basis.

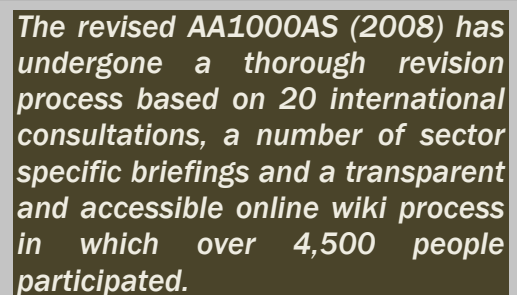
## **The AA1000 Assurance Standard – Credible Disclosure**

The importance of sustainability reporting and assurance has emerged as it becomes ever clearer that today's financial reporting is failing to provide data on the drivers that create business value. But like financial reporting, sustainability reporting is open to abuse and misuse.

It should be no surprise, therefore, that the importance of assurances in sustainability reporting is increasing. Today, a diverse set of stakeholders are demanding a higher level of assurance about the products and practices of companies, not just their financial performance. It is clear that traditional reporting and audit methods that focus on accurate descriptions of historic performance, rather than predictive value, whilst still important, are not sufficient to deliver assurance to these groups.

The recently revised AA1000 Assurance Standard (AA1000AS) provides a comprehensive way of holding an organisation to account for its management, performance and reporting on sustainability issues, by evaluating the adherence of an organisation to the AccountAbility Principles and the reliability of associated performance information.

The AA1000AS (2008) is a principles-based standard that provides a rigorous framework for sustainability assurance while at the same time providing enough flexibility to adapt to the context of the individual organisation. It is forward as well as backward looking and provides findings and conclusions on the current status of an organisation's sustainability performance as well as recommendations to encourage continuous improvement. It is not a certification standard



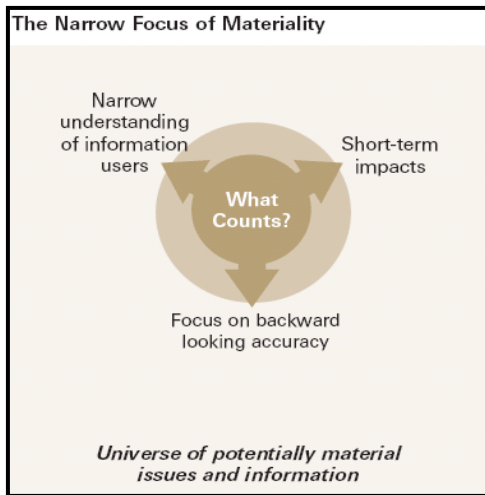
*The revised AA1000AS (2008) has undergone a thorough revision process based on 20 international consultations, a number of sector specific briefings and a transparent and accessible online wiki process in which over 4,500 people participated.*



which leads to a “pass” or “fail,” but rather provides findings on the current state. It can therefore be used by organisations at all stages of maturity as part of their continuous improvement process.

AA1000AS assurance provides a methodology for assurance providers to evaluate and provide conclusions on:

- the nature and extent of adherence to the AA1000 AccountAbility Principles, and
- the quality of the information publicly disclosed on sustainability performance.



The AA1000 Assurance Standard (2008) is unique as it requires the assurance provider to evaluate the extent of adherence to a set of principles rather than simply assessing the reliability of the data. AA1000AS (2008) requires the assurance provider to look at underlying management approaches, systems and processes and how stakeholders have participated. Reporting organisations which choose AA1000AS (2008) assurance acknowledge and assume responsibility for the impacts of their actions, products, decisions and policies. In return, AA1000AS assurance delivers a more rigorous process that adds value for both the company and external stakeholders.

The AA1000AS (2008) marks a significant step forward for sustainability assurance, incorporating developments in the understanding and practice of stakeholder engagement and materiality, and adding additional clarity and rigour. There have been a number of important changes from the original AA1000 Assurance Standard which was published in 2003. These changes enable a more rigorous, consistent and high quality approach to sustainability assurance in a variety of contexts.

It also provides a platform to align the non-financial aspects of sustainability with financial reporting and assurance through its understanding of materiality. New measures of non-financial performance and associated reporting and assurance methods such as AccountAbility’s AA1000 Assurance Standard are helping companies and stakeholders redefine what “material” is. Understanding how these sustainability “intangibles” integrate with financial reporting is central to the credibility and usefulness of any future reporting and assurance model.



The AA1000AS (2008) is a vital step towards that future model. Through the principles of *inclusivity*, *materiality* and *responsiveness*, it focuses on organisational performance and disclosure, and increases the relevance to financial reporting and audit. However, the AA1000AS (2008) broadens the traditional lens of materiality, requiring a longer term view

of issues, a wider spectrum of stakeholders who may use the information, and a deeper view of the information necessary which is both backward and forward looking.

Mainstream auditors have become active in delivering services in the sustainability arena. Now is the time for them to invite others to engage in rewriting the rulebook on financial reporting and assurance. Such collaboration will have dramatic implications for tomorrow's standards and the outcomes they strive to achieve. Assuring stakeholders will become increasingly difficult and developing the mechanisms to do it will require great collaboration. If we want to see our tools reflecting our values, we need to move towards multi-stakeholder approaches that reduce their dependence on the primary financial beneficiaries of standards developed, in favour of those impacted by their implementation. We may even need to develop closer links with more informal forms of assurance.

## **Conclusion**

As global challenges and business strategies integrate yet further, the need for more accountable, values-based leadership will become more pressing. Those looking to embrace such moves will need to recognise and understand the implications of tools created to help them meet these challenges. The AA1000 series provides a number of tools to help organisations identify, understand and respond to sustainability challenges, and in so doing benefit from addressing the challenges we all face.

*Further information regarding the AA1000 Series of standards and other publications by AccountAbility can be found and downloaded for no charge at <http://www.accountability21.net>.*

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## **Author Biography**

As Standards and Related Services Manager of AccountAbility, Daniel Waistell has responsibility for contributing to standards development, including the recent revision of the AA1000 AccountAbility Principles and the AA1000 Assurance Standard. He is also responsible for sustainability standards related research, standards outreach, standards related advisory services and training. Daniel also contributes to the broader range of strategic advisory services that AccountAbility offers and has worked with multinational corporations, UN agencies, multi-stakeholder initiatives and NGOs on a range of responsible business issues.

Daniel Waistell has experience of standards development and analysis, evaluation and reporting systems, stakeholder engagement and corporate strategy. His career has included a period with Deloitte Strategy Consulting, advising Private Equity and Fortune 500 corporations on commercial strategy as well as strategic corporate responsibility issues. He has also worked in Sierra Leone, West Africa, setting up a development-focused venture capital fund, Manocap. Daniel has worked with major international corporations in the manufacturing, energy, construction, logistics and financial sectors, and has spoken and written on a range of standards related to sustainability subjects. He holds a first class degree from the University of Cambridge, UK.