

StoraEnso

Using an ethics code to create a competitive advantage

Introduction

Ethics scandals among businesses are reported on a weekly basis in newspapers, television or other media. Sometimes the scandals could have been avoided, other times not. Many firms nevertheless adopt ethics codes as a strategy in trying to avoid such scandals and bad publicity.

Different surveys report various results of how usual ethics codes are in business firms. According to a study in the United Kingdom¹ about half of the firms had written codes of practice. Another survey reports that 95% of Fortune 500 companies have ethics codes.² However, the use of ethics codes differs among countries. The Americans seem to be the ones who use ethics codes the most, with almost every firm using one. In Europe, however, it is not as common to use ethics codes. In France, Germany and United Kingdom for instance about half of the firms have such codes.³

In the case study below, an example is shown of a firm that recently decided to adopt an ethics code. This was done partly because it was seen as a way to create a competitive advantage, partly as a way to ensure that the whole firm had a common frame of ethical conduct and partly as a way of marketing the firm to stakeholders.

StoraEnso – a Nordic firm on the global market

StoraEnso is one of the leading integrated forestry companies – one that has a worldwide approach to its business. It is the world's second largest producer of paper and board as of the first quarter of 2002, being only narrowly superseded by International Paper. The total paper and board capacity is 15 million tonnes/year. UPM-Kymmene is the closest competitor below them with roughly 12 million tonnes/year. The five core areas of production at StoraEnso are magazine paper, newsprint, fine paper, packaging boards and timber products.

The company is listed on the Helsinki, Stockholm and New York stock exchanges. A key organizational asset of the firm is its global marketing network, which has enabled StoraEnso to reach annual sales of approximately €13.5 billion. The year 2000 brought a big leap forward in sales and profit, and the figures have stabilized in

¹ Pearson 1995.

² Steiner and Steiner 1997, p. 204, see also Treviño and Nelson 1999, p. 216.

³ Gasparski 2000.

2001. Sales continue to grow in absolute terms, though the operating profit as percentage of sales has diminished from 18% to 11%.

The Leader of the Group of StoraEnso in January 2002 was CEO Jukka Härmälä, with the position of Deputy CEO being held by Björn Hägglund. The senior management team heads some 43 000 employees in over 40 countries, so the company is clearly a global corporation with worldwide influence. However, the central regions for activity are Finland, Sweden, Germany and North America. The company is owned largely by Finnish and Swedish institutions, together with private shareholders from both of these countries. Other groups not defined here hold a 36% minority of the shares. It is remarkable that these other shareholders only have voting power amounting to 13%.⁴

StoraEnso aims at profiling itself as a local company parallel with its image of a global firm. Its customers are primarily publishers, printing houses and merchants on the one hand and packaging, joinery and construction industries on the other. Thus, StoraEnso works mainly in the business-to-business environment.

Ethical Profiling as Strategic Planning

In 1999 the company took a first step towards an ethical profiling of the group in launching the program of "Mission, Vision and Values". In a few brief lines, the strategy of StoraEnso was formulated in statements of its goal (mission), its aim (vision) and its priorities (values).⁵ Through this program the firm saw to its environmental and economical sustainability. However, in order to incorporate factors of social responsibility in its ethical profiling, StoraEnso worked out a more thorough set of principles guiding its actions and behaviour. This document, named the Principles for Corporate Social Responsibility was officially embraced and adopted on December 12, 2001.

The background of the company's ethical document, or code, derives from the UN declaration of Human Rights, the UN Global Compact and the core ILO conventions. However, the document was designed and formulated by the top management levels of StoraEnso itself. Referring to the adopted principles, CEO Jukka Härmälä said⁶:

"Historically, many communities developed around sawmills or paper mills, and responsibility was typically a local concept, but today one must also consider responsibility at the global level. At a time of intensifying consolidation, responsibility in

⁴ Global Local Responsible. Key Facts. Full Year 2001.

⁵ StoraEnso 2001, p. 4.

⁶ Press release December 12, 2001 at 15:00 GMT.

all operations is the way to prepare for a truly global presence...”

StoraEnso has gained a good position in rankings of sustainability-related issues by external organizations. The company is included in a global index series, FTSE4Good, for socially responsible investors. The initiator behind this index series is FTSE - the leading expert in creating and managing equity indexes, which is jointly owned by the London Stock Exchange and the Financial Times. To be included in the index series, a company is evaluated on terms of its approach to environmental sustainability, its relationship with stakeholders and its support of human rights.⁷ StoraEnso has also been included in the Dow Jones Sustainability Index since its establishment in 1999.⁸

Top-Driven Code

The initiation of the ethical principles program has come from the very top tier of management - the director of Corporate Social Responsibility is the officer who formulated the principles. As a result, the initiative can be said to be top-driven, aiming at affecting the whole corporation in time. This is expected to take a few years.⁹ In a letter to the shareholders, CEO Jukka Härmälä and Chairman Claes Dahlbäck wrote with reference to the adopted ethical code¹⁰:

In 2001 StoraEnso formulated its Principles for Corporate Social Responsibility. This marked an important milestone in our commitment to the value-creation process. In a time of intensified globalization, growth must go hand in hand with responsible business conduct. /.../ Expanding the business to countries outside the traditional home area is demanding in terms of integrating local and corporate cultures. We intend to be responsible wherever we operate.

In looking closer at this excerpt, it is firstly remarkable to see how the principles are addressed as being a value-creation process and not seen as a bottleneck making business activities unnecessarily complicated. The message is therefore that the adopted document is positively related to the process of adding value to the company. StoraEnso sees the ethics code as a source of competitive advantage. Secondly, the CEO and the Chairman says that growth *must go together* with responsible business conduct. The necessity of responsibility as a part of the company's growth is stated as non-negotiable. StoraEnso thereby defines itself as a

⁷ Press release July 11, 2001 at 11:45 GMT.

⁸ StoraEnso 2001, p. 8.

⁹ Mikael Hannus in personal interview 5.4.2002.

¹⁰ StoraEnso 2001, p. 8.

mature corporation according to criteria established by research on moral maturity in business organizations.¹¹ After this bold and straight talk, at the end of the quotation humility can be discerned as the letter continues... “We intend to be responsible wherever we operate”. In choosing this formulation, the managers indicate their awareness of the problems of cultural relativity and economic development, factors also addressed by stating their commitment to integrating local and corporate cultures. Cultural relativity and economic development are issues that make an ethnocentric definition of ethical principles complex, as the values can indeed vary from culture to culture and region to region.¹²

Principles for Corporate Social Responsibility – A Critical Analysis

As indicated, the code follows principles stated by the United Nations and the International Labor Organization. The code is clearly intended for promoting long-term profitability and is seen as a way of adding and creating value. It addresses three purposes of sustainable development: (1) social (2) environmental and (3) economic. A significant feature of the statement is that StoraEnso makes it very clear that they expect the same level of commitments to ethical issues and business excellence from its stakeholders.¹³ This expectation is however not systematically controlled as of yet and it is reasonable to ask whether the firm's stakeholders know of this demanding expectation. One might get the feeling this wording sounds better than the situation it describes. As a result, the intention is possibly more impressive than the realization, as their Director of Corporate Social Responsibility Mikael Hannus hints.¹⁴

The code consists of seven parts; business practice, communication, community involvement, reduction in workforce, human rights, integration of the principles and finally a section defining the firm's stakeholders. As for business practice and communication, equity among stakeholders and openness towards them is emphasized. Employees must avoid conflicts of a private nature in conducting business interests, and they are also encouraged to engage in local community activities.¹⁵ Consequently, it can be seen that in these statements StoraEnso also wishes to exert influence upon the private lives of their employees. At the same time, the firm shows that these private lives are important for the image of the firm as well, in that the firm draws no clear line between business and private life. Hence, one may perceive the corporation as an individual actor, with the employers make up the

¹¹ See e.g. Reidenbach and Robin 1991.

¹² See e.g. Chonko 1995, p. 44; Laczniak and Murphy 1993, p. 211.

¹³ The StoraEnso Principles for Corporate Social Responsibility 2001, p. 1.

¹⁴ In interview on April 5, 2002.

¹⁵ The StoraEnso Principles for Corporate Social Responsibility 2001, p. 2.

personality of the firm itself. As a result, the firm IS what the stakeholders ARE. In a sense, StoraEnso has a soul, an image and a personality that is not based on business transactions and activities alone - but which also takes its form from activities outside of the business itself. This is quite remarkable and shows that the aims of the corporation really go beyond only conducting business.

The part defining principles linked to human rights is influenced by the views of the United Nations. Only in a few paragraphs have specific lines of thought been put out as prohibitions. These address issues such child labour, legal hours for working and payment of wages.¹⁶

In the section covering the integration of the principles into the organization, StoraEnso realistically gives itself time to incorporate the ideas of the document into the whole corporation. The seriousness of embracing the principles is seen from a didactic tone in commanding its stakeholders and employers to integrate these principles in their everyday activities. However, no threat is posed as a possible consequence of breaking the principles. According to Hannus, however, some stakeholders realize that they are not in a long-term relationship with StoraEnso unless they conform to the standard set by StoraEnso.¹⁷

The last paragraph in this section is very interesting, stating that “we respect cultural differences /.../ but we will not compromise on our Principles of Corporate Social Responsibility.”¹⁸ Having adopted the ethical principles as non-negotiable makes the principles part of the core values of the corporation. Researchers define core values as explicitly non-negotiable.¹⁹ But in addition to this, core values need to be values that already exist in an organization as the core functions around which the business activities are set. Thus, core values should not need to be enforced as they are already present within the working culture. Firstly, the ethical principles are seen as non-negotiable, which makes them by definition core values.

Secondly, StoraEnso indicates that time will be given time for spreading and implementing the principles throughout the organization. This indicates that the principles are not pre-existing but need to be implemented. The principles are then by definition peripheral values, but not core values. However, peripheral values are seen as adjustable to local culture and custom, whereas core values are not. As a result, one gets the feeling that StoraEnso is in a way mixing up the ideas of core values with peripheral values and that their ethical principles are not yet the core values that they are said to be. This may imply difficulties for the organization, should

¹⁶ The StoraEnso Principles for Corporate Social Responsibility 2001, pp. 2-3.

¹⁷ In interview on April 5, 2002.

¹⁸ The StoraEnso Principles for Corporate Social Responsibility 2001, p. 3.

¹⁹ Fuller 1999, also Laczniaik and Murphy 1993, p. 218

a scandal or a negative incident occur which contradicts its ethical code. The code can become part of the core values, but as of this date, this researcher argues it is not.²⁰

Finally, in the principles of social responsibility, the key stakeholders are defined at the very end: customers, employers, investors, partners, the civil society and other societal and governmental bodies. Surprisingly even overstate institutions such as the United Nations are seen as stakeholders.²¹

Conclusion

A few trends show the growing seriousness of using codes of conduct in business firms. Globalization has pressured firms like StoraEnso to develop public statements of their core values and principles that are used in all locations. By publishing their principles in a global forum, the firms are in a way communicating with their stakeholders worldwide. The codes are also usually a result of top management initiative and pro-action. Thus, the codes are part of top management strategy planning and implementation. Also, one can assume that the ethical consciousness of these managers have increased, as result of the codification of ethical values in the business firm.²² This is probably also the situation with StoraEnso. All above mentioned trends show how ethics codes have and still are becoming of importance to international business firms.

As for the case study, one can in conclusion say that StoraEnso has made a big effort into bringing ethical issues to the forefront of the competition in its industry. The process of the code's implementation has not finished and one might consider it probable that some changes to the code may come into being as the process of implementation as their strategy evolves.

More information on the StoraEnso Ethics Code can be found at www.storaenso.com

²⁰ Director Hannus was also somewhat unclear on this point as to whether the code is representing the core values or not.

²¹ The StoraEnso Principles for Corporate Social Responsibility 2001, p. 4.

²² Berenbeim 2000.

QUESTIONS

1. How would you assess StoraEnso's ethical code as a marketing planning function?
2. What is the slogan was primarily used by StoraEnso to cover its business mission? What do you think of it?
3. In what way does the ethics code help StoraEnso achieve a stronger position in the market? Use the Porter five-force model, if you like.
4. Do you think StoraEnso succeeds in making the ethics code part of their core strategy? Is the code a competitive advantage?

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