

Corporate social responsibility issues management at Vattenfall AB

- A study of risks related to technology, value chains, and market
-

Stina Nylander

Abstract

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As one of Europe's largest-producing actors in the energy sector with a wide energy mix, Vattenfall has a great responsibility to contribute to sustainable development of society. To do so, economical, environmental and social aspects need to be balanced in a responsible way. This is done through acting social responsible or in other terms, addressing corporate social responsibility (CSR) in the company's business activities. Electricity and heat constitute one of the prerequisites for a modern society. However, it has always been a highly debated industry due to its inevitable impact on the environment and society. This makes it crucial for Vattenfall and its operations to act as responsible as possible and listen to the stakeholders and take their expectations into account in the business decisions process. Vattenfall has a long history of being criticised for its activities by NGOs and media. However, Vattenfall's main task is to deliver electricity and heat to the society, which means that Vattenfall must continue to deliver secure energy supply to its markets, but with as little negative impact on the environment and society as possible.

Vattenfall is through its operations, its value chain, its use of technology and the markets on which it operates, exposed to risks associated with the areas human rights, labour, environment and anti-corruption. These "CSR risks" can harm the reputation, brand and image if they are not managed in a proactive and effective way. In order to manage CSR risks and emerging CSR issues, the company needs to catch and respond quickly to new trends and expectations raised by opinion formers, which often are expressed through the media and the Internet. The aim of this study is to provide Vattenfall with a tool to do so. Through identifying the main CSR risks related to its operations, awareness about Vattenfall's vulnerability areas are created. The result shows that the largest CSR risks for Vattenfall are technology related, i.e., connected to the fuels used in Vattenfall's power plants and their value chain. This knowledge can be used when addressing CSR in the organization. Still, a direct solution to manage CSR risks and emerging CSR issue is needed. The second purpose of this study is to propose a process for a CSR issues management at Vattenfall. The aim of such an issues management is to provide the company with a tool to identify, analyse and manage emerging issues. A CSR issues management will provide Vattenfall with a tool to respond to emerging issues before they become public knowledge. It should scan and collect external and internal information, identify relevant information for Vattenfall, monitor ongoing and emerging CSR issues/concerns/debates and report to relevant functions in the Vattenfall organization.

Key words: Corporate social responsibility (CSR), CSR issues management, CSR risks, CSR issues, stakeholder expectations, value chain, UN Global Compact, human rights, labour practices, environment, anti-corruption, sustainable development.

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Referat

CSR-omvärldsbevakning på Vattenfall AB

– En studie om teknik, värdekedjor och marknader

Stina Nylander

Som en av Europas största aktörer i den teknikintensiva energisektorn med ett brett utbud av energilösningar, har Vattenfall ett stort ansvar att bidra till hållbar utveckling av samhället. För att lyckas med detta, måste ekonomi, miljö och sociala aspekter balanseras på ett ansvarsfullt vis. Detta kan uppnås genom att agera socialt ansvarsfullt, vilket innebär att applicera ansvarsfullt företagande (CSR) på företagets verksamhet. Elektricitet och värme utgör förutsättningarna för ett modernt samhälle. Energi har alltid varit en mycket debatterad industrisektor p.g.a. dess ofrånkomliga påverkan på miljön och samhället. Detta gör det mycket viktigt för Vattenfall och dess verksamhet att agera så ansvarsfullt som möjligt samt att lyssna på sina intressenters förväntningar och tillgodogöra sig dessa i beslutsprocesser. Vattenfall har en lång historia av att vara kritiserade av sina intressenter, framförallt av NGOs och media. Men det är viktigt att komma ihåg att Vattenfalls huvuduppgift är att leverera elektricitet och värme till samhället, samtidigt ska detta göras tillsammans med avvägning om acceptabel påverkan på miljö och pris.

Vattenfall är genom sin verksamhet, sin värdekedja, sin teknikanvändning och sina marknader utsatt för risker inom områdena mänskliga rättigheter, miljö, arbetsrätt och anti-korruption. Dessa "CSR-risker" kan skada Vattenfalls rykte, varumärke och image om de inte hanteras på ett förebyggande och effektivt sätt. För att hantera CSR-risker och uppkommande CSR-frågor, måste företaget tidigt fånga upp och svara på nya trender och förväntningar startade av opinionsbildare, som ofta uttrycks genom media och via internet. Syftet med den här studien är att förse Vattenfall med ett verktyg för att göra detta. Genom att identifiera de övergripande CSR-riskerna för Vattenfalls verksamhet, bygger man upp en medvetenhet om företagets sårbara områden. Resultaten visar att Vattenfalls största CSR-risk är teknikrelaterad; kopplad till de bränslen som används. Denna kunskap kan användas när man applicerar CSR i organisationen. Det behövs även ett direkt verktyg för att hantera CSR-risker, uppkommande CSR-frågor och kritik som sprids via olika kommunikationsforum som t.ex. media och NGOs. För att hantera detta, ska en process föreslås för en CSR-omvärldsbevakning för Vattenfall. Målet med en sådan omvärldsbevakning är att förse företaget med ett verktyg för att identifiera, analysera och hantera uppkommande CSR-frågor. En CSR-omvärldsbevakning skulle förse Vattenfall med ett verktyg för att svara på uppkommande CSR-frågor innan de blir allmänt kända. Den skulle skanna och samla in extern och intern information, identifiera relevant information för Vattenfall, övervaka pågående och uppkommande CSR-frågor/debatter/händelser och rapportera till relevanta funktioner inom Vattenfall.

Nyckel ord: Ansvarsfullt företagande (CSR), CSR-omvärldsbevakning, CSR-risker, CSR-frågor, intressentförväntningar, värdekedja, UN Global Compact, mänskliga rättigheter, arbetsrätt, miljö, korruption, hållbarhet.

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Preface

This engineering master thesis was performed as a part of my master in Aquatic and Environmental Engineering Programme, at Uppsala University. The course responds to 30 c and was conducted at Vattenfall AB, Group communications. My tutor Michelle von Gyllenpalm at Vattenfall AB has been a great support to me through out this project, without her I would not have achieved my goals. I would also like to thank my subject reviewer at Uppsala University, Lars-Christer Lundin at the Department of Earth Sciences, Program for Air-, Water and Landscape Sciences. In addition, I would like to express my gratitude to all of you who have supported my work through interviews, advices and feedback.

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Populärvetenskaplig sammanfattning

Allt fler företag inser värdet av att bidra till hållbar utveckling av samhället genom att applicera socialt ansvarstagande i verksamheten (ISO/DIS 26000, 2010). För att lyckas med detta måste ekonomiska, miljömässiga samt sociala aspekter balanseras på ett ansvarsfullt vis. De senaste åren har socialt ansvarstagande fokuserat på affärsverksamheter vilket har resulterat i att benämningen CSR (corporate social responsibility) har blivit allt vanligare (ISO/DIS 26000, 2010), ett uttryck som även används i denna studie.

Genom sin verksamhet, sin värdekedja, sin teknik, och sina marknader är företag utsatt för risker inom områdena mänskliga rättigheter arbetsrätt, miljö, och anti-korruption.

Dessa "CSR-risker" kan komma att skada företagets rykte, varumärke och image, vilket i sin tur kan leda till negativa konsekvenser för företagets verksamhet (Kytte, 2005). En CSR-risk är definierad som en händelse eller situation som kan påverka företagets förmåga att uppnå sina mål, behålla ett gott rykte samt möta sina intressenters förväntningar (Reyner, 2003).

För att kunna hantera CSR-risker på ett förebyggande sätt är det ytterst viktigt att förstå vilka slags risker som företaget är utsatt för. Detta kan åstadkommas genom att identifiera företagets sårbara områden och därmed skapa en förståelse för företagets svaga punkter. Syftet med den här studien är att bidra till en sådan förståelse samt att rekommendera en process för CSR-omvärldsbevakning på Vattenfall som fångar upp CSR-relaterade risker och frågor som kan komma att påverka företagets verksamhet. Genom att göra detta kan Vattenfall arbeta för att förbättra sin verksamhet och sina rutiner för att förebygga negativ påverkan på företaget.

Den första delen av studien identifierar de övergripande CSR-riskerna för Vattenfalls bränslen samt geografiska områden inom områdena mänskliga rättigheter, arbetsrätt, miljö, och anti-korruption. Studien visar att de största CSR-riskerna är relaterade till bränslena och deras leverantörskedja, dvs till den teknik man använder för att producera energi. Uran, kol och biomassa upphandlas från länder spridda över hela världen. I vissa av dessa länder råder en låg standard för mänskliga rättigheter, arbetsrätt, miljö, och anti-korruption. Dessutom har gruvindustrin en lång historia av att bli kritiserad för sin negativa påverkan på samhället och miljön. Detta gör det mycket viktigt för Vattenfall att granska och ställa höga krav på sina bränsleleverantörer.

Studien visade även att de övergripande CSR-riskerna kopplade till Vattenfalls geografiska områden¹ generellt sätt är låga. Trots detta är risken för kritik från intressenter som kan skada Vattenfalls verksamhet stor eftersom förväntningarna på företaget är stor. På hemmamarknaderna kan små misstag leda till stora konsekvenser för företaget. Därmed är det av stor vikt att ha en god relation till samt ett gott rykte bland intressenterna på sina hemmamarknader.

Den andra delen av studien föreslår en process för CSR-omvärldsbevakning på Vattenfall. Den föreslagna processen inkluderar:

- Övervakning och insamling av information/nyheter/publikationer kopplade till Vattenfalls verksamhet från externa och interna källor
- Identifiering av CSR-frågor/risker kopplade till Vattenfalls organisation
- Analys och riskrankning av identifierade CSR-frågor
- Aktiv/passiv övervakning av identifierade CSR-frågor
- Rapportering till CSR manager samt till berörda funktioner inom Vattenfall

¹ Sverige, Danmark, Finland, Tyskland, Polen, Belgien, Nederländerna och Storbritannien.

- Identifiering och övervakning Vattenfalls tio mest kritiska leverantörer.

En annan viktig del av processen är intressentdialoger, både på regional och också global nivå. Dialogerna utgör en extern informationskälla och bör resultera i en kartläggning av viktiga CSR-fågor för Vattenfall som kan användas som ett kommunikationsverktyg för CSR-frågor samt som väsentlighetskälla till Vattenfalls årliga hållbarhetsredovisning.

En av de grundläggande förutsättningarna för den föreslagna processen för CSR-omvärldsbevakning är samarbetet med övriga funktioner inom Vattenfall som på ett eller annat vis jobbar med risker och/eller omvärldsbevakning. Tydliga och strukturerade kanaler till dessa funktioner bör arbetas fram.

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1. Introduction

More and more companies are recognizing the need and the benefits of being socially responsible with the aim to contribute to sustainable development of society (ISO/DIS 26000, 2010). To do so, economical, environmental and social aspects need to be balanced in a responsible way. During the last years, social responsibility has focused on businesses, which have made the term corporate social responsibility (CSR) more widespread than social responsibility. It represents ethical and transparent behaviour that takes stakeholder's interest in account and follows international laws and norms (ISO/DIS 26000, 2010). The draft for the International Standard ISO 26000 provides the underlying principles of social responsibility, the core subjects and issues pertaining to social responsibility².

There are many different definitions of CSR. The definition set by the European Union is "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission, 2010). According to the definition of the United Nations (1987), CSR is the overall contribution of business to sustainable development, being defined as: "...a pattern of resource use that aims to meet human needs while preserving the environment so that these needs can be met not only in the present, but also for future generations." Other international forum, such as the United Nations Conference on Environment and Development in 1992 and the World Summit on Sustainable Development in 2002, have highlighted the importance of these objectives over the years since 1987.

In July 2000, the leadership initiative UN Global Compact was launched as a policy platform and a practical framework for companies that are committed to sustainability and responsible business practice (United Nations Global Compact, 2010). The purpose of the initiative is to align business operations and strategies everywhere with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. These ten principles constitute an international framework for CSR performance and are often used as a tool when addressing CSR.

1.1. CSR risks and issues

Companies are through their operations, their value chain, their technology and the markets on which they operate, exposed to risks associated with the areas human rights, labour, environment and anti-corruption. These "CSR risks" can harm the reputation, brand and image of the company, which can lead to financial loss through consumer boycotts and business-opportunity loss (Kytte, 2005). A risk is "an event or situation which could adversely or beneficially affect the business' ability to achieve its objectives, maintain a good reputation and meet stakeholder expectations" (Reyner, 2003). A CSR risk occurs when there is a gap between the expectations from society and the company business behaviour (Zaman, 2004). A company needs to be sensitive to the shift in expectations of its stakeholders to be able to anticipate CSR risks. Expectations are usually raised by opinion influencers, and expressed through the media and the Internet. If a company catches new trends fast and responds quickly, it is more likely to manage CSR risks and emerging CSR issues (Zaman, 2004). This report follows Heath and Palenchar (2008) and defines an issue as a point of discussion or dispute that is worthy of attention when it can have an impact on the organization.

² The ISO 26000 will be officially published during 2010.

1.2. CSR Issues management

According to a survey performed by a United States public opinion survey, 50% of the consumers in the US have boycotted a company at some time due to bad customer service, poor quality products or environmentally unsound actions (Regester and Larkin, 2005). They objected to corporations whose values were not compliant with theirs. There are many examples of such consumer boycotts, but one of the most extensive and longest running boycotts were against Nestlé (Regester and Larkin, 2005):

In the 1970s, when Nestlé was accused of selling infant formula products in developing countries at prices that could not be afforded and where water was virtually non-existent, they chose to ignore the allegations of irresponsible behaviour and greed. This resulted in the formation of the non-profit organization Baby Milk Action. Baby Milk Action became a powerful and critical force against the company, which generated massive negative media coverage and succeeded in harming the company through consumer boycotts and through significant reputational and commercial damage. This was a result of Nestlé's refuse to discuss the issue with the stakeholders or have a public debate on the issue (Regester and Larkin, 2005). When they finally realized their mistake it was already too late to repair the damage.

This case shows the importance of an issues management that catches upcoming CSR issues early and manages them in an open and transparent way. It also points to the need to couple marketing to the actual technological level of the market, in this case the drinking water availability. How an issue is managed can mean the difference between a major crisis and a manageable situation (Regester and Larkin, 2005)

The term *issues management* was coined in the 1970s, which was the time when stakeholders started to question the legitimacy of companies and their behaviour (Heath and Palenchar, 2008). Issues such as health and safety, social responsibility, environment, and labour practices were discussed in media, among activist groups and of government agency heads who pressed for change in business activities and policies (Heath and Palenchar, 2008). Issues management started as an attempt to define strategies that companies needed in order to counter the efforts of activist groups that were putting pressure on legislators for stricter controls of business activity. Issues management developed and companies started to implement it as a tool to deal with their critics (Regester and Larkin, 2005). W. Howard Chase (cited by Heath and Palenchar, 2008) defines issues management as a tool that companies could use to:

- identify,
- analyse, and
- manage emerging issues.

An important part of identifying issues is to engage with stakeholders and listen to their expectations on the company.

Issues management gives the company a chance to respond to emerging issues before they become public knowledge. Issues management should look for and take actions on emerging issues and thereby help organizations to be proactive, instead of merely reactive (Heath and Palenchar, 2008). Even though many emerging issues never develop into real issues that draw public attention, a company must be committed to avoid the unexpected and respond quickly when it happens. It is important to recognize that most issues cannot be solved by communication alone, often real improvement of CSR standards is needed (Heath and

Palenchar, 2008). One proactive issue response is to bring the company to a higher CSR standard and thereby minimize the company's vulnerability areas.

To have an effective process for CSR issues management that identifies, analyses, and monitors, emerging CSR issues constitutes an important part in a company's CSR work and is an important tool to manage CSR risks (Heath and Palenchar, 2008).

1.3. Vattenfall

Vattenfall is an energy company that is wholly owned by the Swedish state. It generates electricity, produces heat and supplies energy to several million customers in the Nordic countries and northern Europe. It has a broad energymix that includes fossil power, nuclear power, hydropower, windpower, and biomass. Vattenfall's vision is to be a leading European energy company and its core values are represented by openness, accountability and effectiveness.

Being a producing company in the energy sector, technical aspects are always the core of the company's activities. Vattenfall's core business is to generate electricity and heat to the society in a responsible manner. This also represents Vattenfall's main contribution to sustainable development. When working with CSR at Vattenfall, it is very important to understand the industry, its technical base, the company's role and impact on society as well as the product themselves. The main objective is to minimize its own as well as the value chain's negative impact on society and environment. For example, all fuels used by Vattenfall have a negative impact on the environment. The challenge is to secure that the fuels are produced and used with as little negative environmental impact as possible (Vattenfall, 2010).

Stakeholder expectations have played an important role in the development of Vattenfall and its technical operations (Gyllenpalm, pers.com., 2010). Looking at the history of Vattenfall, one can see how the company's operations changes due to these expectations. What is considered as responsible and sustainable operations change over time. For example, during the 70s, the question on hydropower's impacts on the environment was raised. This resulted in Vattenfall's investments in nuclear power. Ironically, the public opinion and the stakeholder expectations changed during the late 80s after the Chernobyl accident, and Vattenfall was forced to plan the phasing out of nuclear power. However, the expectations changed again. Today, Vattenfall's stakeholders in Sweden consider nuclear power as a relatively sustainable energy source and it once again constitutes an important component for the future energy generation in Sweden. Coal however, has now become the large concern. As a result, the investments in renewable energy have increased as well as the investments in new technology such as Carbon Capture and Storage (CCS)³. During the last decade, the stakeholder expectations have started to involve the value chain, especially the fuel value chain. This has resulted in Vattenfall's extensive supplier evaluation routines when purchasing uranium, coal and biomass.

As an international company, Vattenfall is exposed to CSR risks through its operations and value chain that might harm the brand and image, as well as threaten its license to operate. Vattenfall is under constant scrutiny and has a long history of being criticized by media and NGOs for its operations and its value chain that includes fuel suppliers from countries in different parts of the world. Being a Swedish state owned energy company with operations in northern Europe entails a great responsibility to act as an example for other companies. It also

³ Carbon capture and storage (CCS) can support the transition to a low carbon energy system in the near future.

means that Vattenfall is under higher pressure from the owner and more demanding expectations from stakeholder than other privately owned companies (Gyllenpalm, pers.com., 2010). This makes it very important to manage CSR risks as well as emerging CSR issues in a proactive way in order to prevent harm to the company.

At present, Vattenfall has no structured process in place for managing CSR issues connected to Vattenfall's operations and value chain on group level. However, there are functions within Vattenfall that work with risks and issues management, but with other focus areas than CSR, i.e. human rights, labour, anti-corruption, and environment. The challenge for Vattenfall is to structure a process for CSR issues management that interacts with these other processes in a way that benefits all involved functions as well as the company at large. An important part of creating a CSR issues management at Vattenfall is to identify the company's major CSR risks and potential CSR issues.

1.4. Purpose

It's very important for Vattenfall to understand the different CSR risks related to its operations to be able to manage emerging CSR issues in a preventive way. The purpose of this study is to contribute to that knowledge and recommend a process for managing emerging CSR issues that might affect Vattenfall's operations and/or reputation. To achieve this, the study will consist of two parts.

The first part will identify the main overall CSR risks connected to Vattenfall's operations and thereby give an understanding for which kind of CSR issues Vattenfall might be exposed to. Since Vattenfall is a signatory member of the UN Global Compact and supports its ten principles in the areas of human rights, labour, anti-corruption and environment, these areas will constitute the framework for what is considered a CSR risk in this study. The first part of the study aims to answer the following question:

- Which are the main CSR risks and issues within the areas human rights, labour, anti-corruption and environment connected to Vattenfall's operation?

The second part will suggest a process for a CSR issues management at Vattenfall that quickly and effectively manages emerging and ongoing CSR issues. This part of the study aims to answer the following questions:

- How might a process for CSR issues management at Vattenfall look like?
- Which functions within Vattenfall should be included and how should they interact with the CSR issues management process?

2. Conceptual framework

2.1. Stakeholder identification and engagement

The elements of CSR are based on the expectations from stakeholders and society, which makes CSR changeable over time (ISO/DIS 26000, 2010). When society and organizations change, so do the expectations. An early notion of CSR focused on philanthropic activities such as giving to charity. Issues such as labour practices and fair operating practices emerged a century or more ago. Other issues, such as human rights, environmental concerns, bribery and anti-corruption, and consumer protection, were added over time, as they received growing public concerns (ISO/DIS 26000, 2010). Therefore, identification of and engagement with stakeholders are fundamental processes for CSR. Through an open dialogue with identified stakeholders, a company can understand the impacts from its activities and the expectations from society, as illustrated in figure 1. Through that knowledge, it can address relevant issues of concern in their CSR work and manage CSR risks (ISO/DIS 26000, 2010).

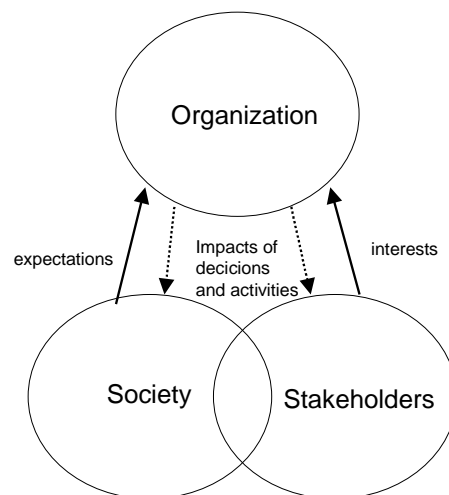


Figure 1. Relationship between an organization, its stakeholders and society (ISO/DIS 26000, 2010:15).

Organizations, individuals and other parties that are directly or indirectly affected by a company's decisions and behaviour constitute stakeholders (ISO/DIS 26000, 2010). Examples of a company's stakeholders are the owners, the employees, communities, customers etc. A company may not always be aware of all its stakeholders. In the stakeholder group, there are parties that should be included but that don't exist in an organized form or have someone that can speak for them. Examples of such groups are the environment, future generations and vulnerable groups such as children and illegal immigrants (ISO/DIS 26000, 2010). In these cases, it is very important to find a reliable spoke person/organization to represent them.

When the stakeholders have been identified, the next step is to engage with the stakeholders. Stakeholder engagement means to actively include the stakeholder's interests in the decision making process (ISO/DIS 26000, 2010). This is a big challenge since the interests of different stakeholders often vary significantly and sometimes even compete (ISO/DIS 26000, 2010). In the stakeholder engagement process, stakeholder dialogue is an important part. Managing stakeholder relationships requires a mutual dialogue and truly engage stakeholders in the decision process of the company. The term engagement refers to listening to, and accounting

for, the views of stakeholders, as well as involving them in the provision of solutions (Kytly, 2005). Figure 2 illustrates an increasing scale of managing stakeholders/relationships, as developed by the World Bank⁴.

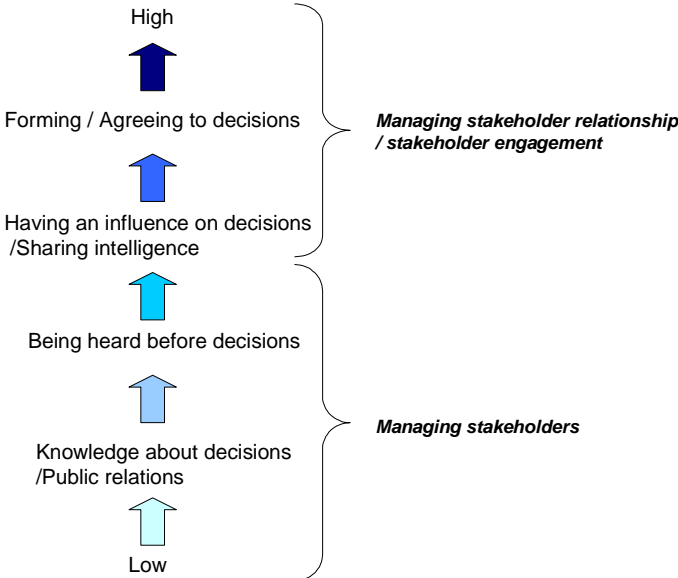


Figure 2. Stakeholder Engagement Model (Kytly, 2005)

A stakeholder dialogue can take place in many different forms such as formal or informal initiatives taken by the company or the stakeholder, it might take place during workshops, conferences, individual meetings, public hearings, round-table discussions, advisory committees, collective bargaining and web-based forums (ISO/DIS 26000, 2010). However, the fundamental principle is that it should be a two-way communication. To create an effective stakeholder engagement, it's essential to only include stakeholders relevant for the company and its operations- it's not possible to include all. It's also important to engage stakeholders with different views; a company should not include stakeholders based on if their interests mirror the company's interests since the dialogue then would lose its purpose (ISO/DIS 26000, 2010).

For a multinational company, stakeholder dialogue is an effective means of understanding and identifying the risks associated with its activities on different markets, especially in the social and environmental areas, but also economically and politically (Kytly, 2005). It provides an opportunity to pick up signals of emerging issues and thereby give the company a chance to manage the risk and, in the best case, a measure to eliminate it. A continuous and integrated information flow between a company and its stakeholders can form a base of knowledge about CSR issues and risks and how they should be managed, and at the same time build valuable trust between the company and its stakeholders.

Stakeholders seek to hold organizations to a certain performance standard. Once it fails to achieve that level it is subject to criticism. Businesses need to be committed to know and achieve the level of CSR performance that is necessary to maintain the legitimacy of the organization (Heath and Palenchar, 2008). The legitimacy gap, as illustrated in figure 3,

⁴ Based on RC Calow, BL Morris and AR Lawrence. 1999. *Stakeholder Analysis and Consultation*. The world Bank Group.

results from differences between what a company is doing and what its stakeholders expect and prefer it to be doing. The gap represents how strongly the stakeholders approve or disapprove of a company and is usually a result of differences in fact, value and policy. To manage issues, a company must minimize this gap (Heath and Palenchar, 2008). Operating in mutual interest with stakeholders and with a commitment to achieve social responsibility is vital for a company that wants to operate with minimal external constraint. Issues management is a means to achieve harmonization of the different interests of a company and its stakeholders.

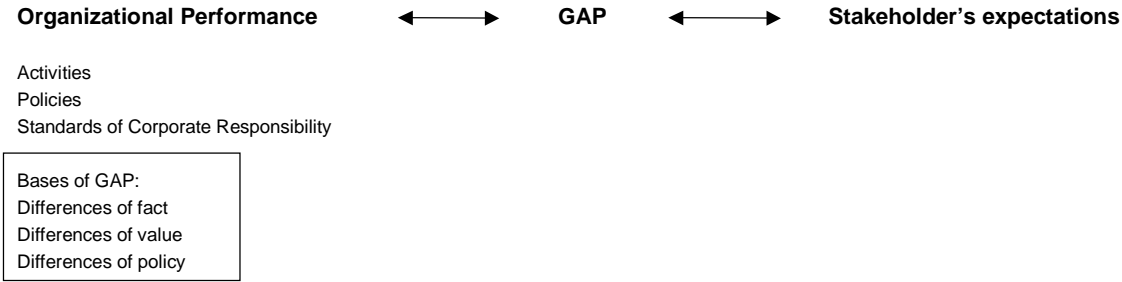


Figure 3. The legitimacy gap (Heath and Palenchar, 2008).

2.1.1. How globalization has affected stakeholders

Globalization has created a new operating environment for business that is very different from national or local environments. This new operating environment is often unpredictable and requires an understanding of the dynamics of the global market, its players and the risks associated with it (ISO/DIS 26000, 2010). There is also a wider range of stakeholders that expresses different expectations, which all need to be handled by the company. In addition to this, the globalization has, together with greater ease of mobility and accessibility, and the availability of instant communications between individuals and organizations, made companies more exposed and vulnerable to criticism towards irresponsible activities connected to their operations and more exposed to criticism (ISO/DIS 26000, 2010).

Along with globalization of companies, a significant shift in market power has occurred (Kytte, 2005). In addition to an increased market power for customers and traditional investors, stakeholders such as communities, employees, regulators, politicians, suppliers, NGOs and media have gained much power through liberalized telecommunications markets, the Internet and formation of coalitions on a global level (Kytte, 2005). These empowered stakeholders have been given a position to challenge and put pressure on companies to change.

2.1.2. An organization's sphere of influence

In addition to being responsible for its own organization, activities and decisions, a company often has the possibility and power to affect the behaviour of other organizations. When such situations occur, the organizations are under the company's sphere of influence (ISO/DIS 26000, 2010). It's then a part of the company's corporate social responsibility to transfer its responsible behaviour and actions towards sustainable development to these organizations. Organizations that are included in a company's sphere of influence are often a part of the value chain; they often constitute suppliers, peer organizations, partners and formal and

informal associations in which the company participates (ISO/DIS 26000, 2010). A value chain comprises the full range of activities that are required to bring a product or service from its conception to end use and beyond (Kytile, 2005).

International companies often have complex value chains, which's start and end points are very hard to identify and manage (Kytile, 2005). The value chains often stretch across multiple companies and wide geographic areas. Each of the actors in the value chain brings its own set of local stakeholders along with different expectations and interests. A dispute with any of them can cause significant consequences for the company (Kytile, 2005). In the parts of the value chain that is active in developing countries, new types of stakeholder issues and challenges occur. Weak regulatory frameworks and means of enforcement, as well as corruption and lack of social services, raise new kinds of CSR risks that need to be responsibly managed (Kytile, 2005).

2.2. Risks, crisis and issues

A risk is easiest described in the context of threats, vulnerabilities, and controls and countermeasures, as illustrated in figure 4 (Kytile, 2005). A risk arises if a company is vulnerable in an area where a threat exists and there are no effective controls and countermeasures taken, which means there is a lack of risk management (Kytile, 2005). For a company active on the global market it is of great importance to have controls and countermeasures on place to minimize the disruption, loss or damage to business operations, and shorten the recovery time from unwanted events that can be created from a risk.

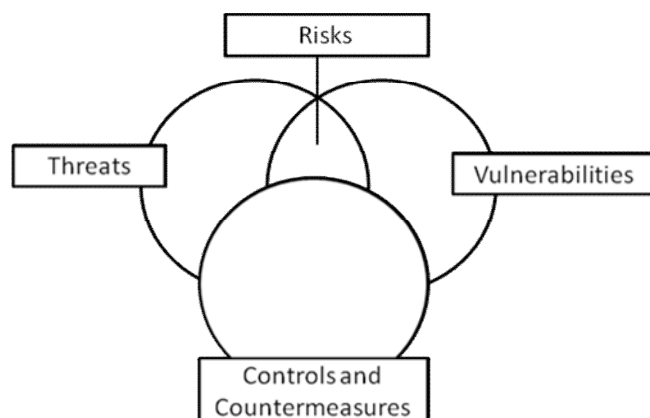


Figure 4. Defining risk (Kytile, 2005).

This definition is supported by the general definition of a risk found in the Business Dictionary (Businessdictionary, 2010) which defines a risk as a “Probability or threat of a damage, injury, liability, loss, or other negative occurrence, caused by external or internal vulnerabilities, and which may be neutralized through pre-mediated action”.

Today, most companies have developed processes for handling traditional risks, such as political, economic and technological risks, on a routine basis (Kytile, 2005). This is not the case when it comes to CSR risks associated with globalization of companies and their value chain. These risks are rarely understood or managed in an effective way to minimize and prohibit harm to the company, its business operations and business relationships. CSR risks refer to, but are not limited by, human rights, labour practices, environmental impact and sustainability (Kytile, 2005).

With globalization comes greater vulnerability and thereby the importance of managing CSR risks. A CSR risk occurs when a stakeholder brings up a social issue area and pressures the company to change policies or approaches in the marketplace through exploiting vulnerabilities. A CSR risk can have wide-ranging impacts on a company's operations and activities, from sourcing to public relations. Different stakeholders are associated with different CSR risks areas. For example, employees may raise concerns about outsourcing of jobs, customers may request changes in a company's environmental policies and civil society may pressure the company to take responsibility for the activities of their suppliers (Kytte, 2005). On the global arena a CSR risk might occur even though companies or its suppliers simply follow the local laws, since their behaviour may not be compliant with the company's own self-proclaimed standards or break international norms and laws (Kytte, 2005). The expectations on global companies are often to help fill government gaps and compensate for governance failures. CSR risks may also occur from decisions that appear to make good business sense from an economic perspective (Kytte, 2005). One example of this is outsourcing the production to countries where the labour is cheaper and taxes are lower. A decision that might end up harming the company's reputation and image if the company decreases its environmental performance, doesn't follow international labour practices, or decreases the technical quality of the product.

For a global company, CSR risks are equally important as technological, economic and political risks and should be included in the company's strategic risk management. These risks are often likely to crosscut each other (figure 5), which mean that they should be addressed from multiple perspectives simultaneously (Kytte, 2005).

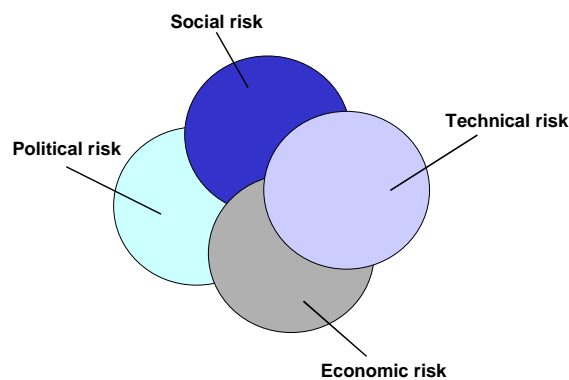


Figure 5. Perspective on risks (Kytte, 2005).

In this study, the definition used for a crisis is “A critical event or point of decision which, if not handled in an appropriate and timely manner (or if not handled at all), may turn into a disaster or catastrophe” (Businessdictionary, 2010).

Issues, crisis and risks interconnect with each other (Heath and Palenchar, 2008). A crisis is a manifested risk, but the relation can also be the reversed; a risk can develop from a crisis. An issue may result from both a risk and crisis. The issue becomes an interpretation of the risk or crisis that it resulted from and needs to be managed at an early stage before it affects the company in a greater sense. Figure 6 illustrates the relationship between an issue, a crisis and a risk, and their characteristics.

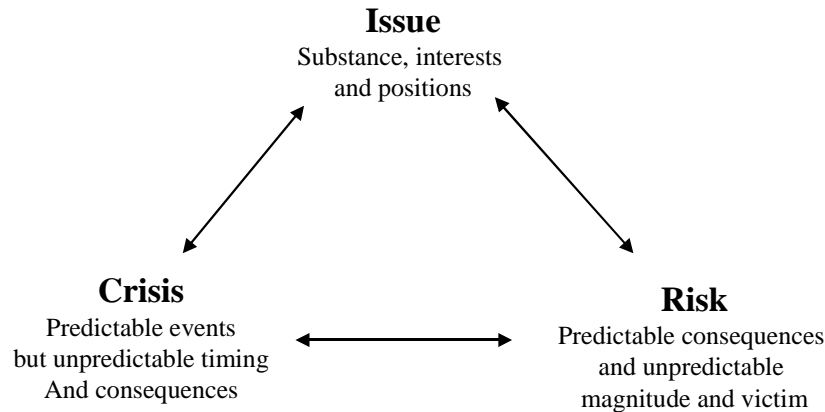


Figure 6. The relationship between issues, crisis and risks (Heath and Palenchar, 2008).

2.4. The link between CSR and risk management

CSR is related to risk management through two means:

- By providing intelligence for identifying risks and as a source of information about CSR risks
- By offering effective means to respond to them.

The prerequisite for these means, and for an effective CSR performance, is managing stakeholder relationships (Kyle, 2005).

CSR risk management needs to be integrated with other forms of strategic risk management processes through internal and external risk sensing, reporting and monitoring practices. Primarily, CSR issues should be handled and addressed by a company's CSR department, but if the attention from the public, the civil society and media grows, the company's attention to the issue must spread in the organization, and if necessary, the top management will be required to change business-operating policies (Heath and Palenchar, 2008).

Only through well-managed stakeholder dialogues and increased understanding for the international norms and standards with which the company is expected to comply, as well as the understanding of the stakeholder expectations, together with the linkage of CSR and a risk management process, CSR risks can be successfully managed (Heath and Palenchar, 2008).

2.3. The Global Scene

2.3.1. UN Global Compact

"The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption" (United Nations Global Compact, 2010).

The UN Global Compact is a leadership initiative, requiring a commitment signed by the company's chief executive, and endorsed by the highest-level governance body of the organization. In the context of this commitment, the signing members of the initiative are expected to (United Nations Global Compact, 2010):

- Make the UN Global Compact and its principles an integral part of business strategy, day-to-day operations, and organizational culture

- Incorporate the UN Global Compact and its principles in the decision-making processes of the highest-level governance body (i.e. board)
- Engage in partnerships to advance broader development objectives, such as the Millennium Development Goals
- Integrate in its annual report or in a similar public document, such as a sustainability report a description of the ways in which it implements the principles and supports broader development objectives
- Advance the UN Global Compact and the case for responsible business practices through advocacy and active outreach to peers, partners, clients, consumers and the public at large.

2.3.2. OECD- Organisation for economic co-operation and development

The mission of the OECD is to bring together the governments of countries committed to democracy and the market economy from around the world to (Regeringskansliet, 2010):

- Support sustainable economic growth
- Boost employment
- Raise living standards
- Maintain financial stability
- Assist other countries' economic development
- Contribute to growth in world trade

The organisation provides a setting where governments compare policy experiences, seek answers to common problems, identify good practice and coordinate domestic and international policies. The Swedish government expects all Swedish companies to follow the guiding principles of the OECD for Multinational Corporation, which in short contains (Regeringskansliet, 2010):

- *Generally:* Respect human rights, contribute to sustainable development and support further education of the employees.
- *Information:* Communicate good information on your operations and your products and services, financial as well as other
- *Employees:* Respect the right of the employees (the right to join trade unions, collective bargain etc.), collaborate with the representatives of the employees and counteract child labour. Inform and relieve negative consequences of discontinuations.
- *Environment:* Strive for continuous improvement. Protect the environment, health and safety through means such as environmental management systems and the principle of caution. Develop and offer products and services without unnecessary environmental effect.
- *Corruption:* Don't give bribes, support transparency and the employees awareness on the company's corruption and bribery policy
- *Consumer interests:* Provide your consumers with all relevant information on your products and establish routines for solving consumer disputes.
- *Science and techniques:* Strive to transfer technique and knowledge to the host country.
- *Competition:* Do not collaborate with competitors in a way that limits competition.

2.3.3. PACI - Partnering Against Corruption Initiative

The World Economic Forum Partnering Against Corruption Initiative (PACI) was formally launched by CEOs from the Engineering & Construction, Energy and Metals and Mining industries in January 2004 in an effort to combat global corruption (World Economic Forum, 2010). Today, PACI is a multi-sectoral initiative with signatories beyond the three originating sectors and fully inclusive, meaning that all companies are invited to join PACI regardless of their size, sector or country of origin. The PACI is based on CEO commitment to zero-tolerance towards bribery and commitment to implement a practical and effective anti-corruption program within the company (World Economic Forum, 2010).

PACI is a multi-stakeholder initiative that works with a number of organizations including:

- The United Nations Global Compact (GC)
- The International Chamber of Commerce (ICC)
- The Organisation for Economic Co-operation and Development (OECD)
- Transparency International (TI).
- The Multilateral Development Banks and selected International Financial Institutions.
- The Basel Institute on Governance

145 companies have committed to strengthening efforts to counter corruption and bribery through PACI and have signed a statement supporting the PACI Principles for Countering Bribery (World Economic Forum, 2010). These Principles call for a commitment to two fundamental actions:

- A zero-tolerance policy towards bribery
- Development of a practical and effective implementation programme

In practical terms, this will mean either implementing anti-bribery practices based on the PACI Principles or, for companies with established programmes, using the PACI Principles to benchmark existing practice. The aim of the PACI Principles is to provide a framework for good business practices and risk management strategies for countering bribery (World Economic Forum, 2010).

3. Method and Material

The CSR risk identification part of this study will focus on CSR risks related to fuels and to the geographical markets where Vattenfall is active. Vattenfall's fuels include uranium, coal and biomass. Each of these fuels, as well as the countries where Vattenfall has operations, are connected to risks within the areas addressed by the UN Global Compact, i.e. human rights, labour, anti-corruption and environment. The method used for identifying CSR risks was a qualitative case study, where empiric data were collected through interviews with experts within Vattenfall as well as desktop research.

In the fuel part of the study, the focus has been on identifying the CSR risks related to the different energy fuels used by Vattenfall. For each fuel, the following CSR topics are addressed:

- Human rights / workers right
- Health and safety
- Environment

In the geographical part of the study, the CSR risks related to the geographical areas that are represented by Vattenfall's four business groups; Nordic, Benelux, Central Europe and the cross-functional business group Pan Europe, are identified. The following CSR topics are addressed:

- Human rights
- Labour practices
- Environment
- Anti-corruption

To achieve a realistic and effective recommendation for a CSR issues management function at Vattenfall, the study includes a benchmarking of how other companies have structured their CSR issues management and a mapping of the different functions at Vattenfall that already perform some kind of issues or risk management. The benchmarking was conducted through interviews and desktop research. The mapping of relevant functions within Vattenfall was conducted through interviews with the responsible managers and with information published on Vattenfall's internal web pages.

The purpose of the benchmark is to provide the study with information on how other companies have structured their process for CSR issues management and use their experiences when recommending a process for CSR issues management at Vattenfall. The building and construction company Skanska and the Dutch energy company Nuon were chosen for the benchmark. They are both technically advanced companies with similar characteristics as Vattenfall. Skanska was chosen because it, like Vattenfall, is a Swedish international company that is under constant attention from media and NGOs. Nuon, which is a former Dutch state own energy company, was chosen due to the fact that it was acquired by Vattenfall during 2009 and now is a part of the Vattenfall organization.

3.1. Global commitments by Vattenfall

As a large international company, Vattenfall is responsible for following certain rules, principles and commitments, both on a legal and voluntary basis.

3.1.1. UN Global Compact

Vattenfall is a signing member of the UN Global Compact and has committed to act according to the ten principles as described in the Initiative. The Initiative covers all CSR risks highlighted in this study and more within the areas of human rights, labour, environment and anti-corruption. However, it's not a legally binding commitment, which means that there are no legal consequences of non-compliance. But if a company violates the principles, it risks losing the membership and be "thrown out" from the initiative. This is, of course, a prestige and reputational risk for the member companies. Therefore, it is important for Vattenfall to ensure acting in line with these principles throughout the entire organization as well as the value chain.

3.1.2. OECD- Partnering Against Corruption Initiative

There is a risk of consequences for companies that don't follow the guiding principles of the OECD for Multinational Corporation principles. This happened to Vattenfall during 2009, when Greenpeace accused Vattenfall's operations in Germany for violating the principles. The accusations proposed to the OECD didn't go through due to lack of evidence. However, they did accomplish some media attention, which is harmful for the Vattenfall brand and image. This case shows the importance of securing that Vattenfall's organization doesn't violate the guiding principles of the OECD for Multinational Corporation.

3.1.3. PACI - Partnering Against Corruption Initiative

Since Vattenfall, through PACI, is committed to strengthening efforts to counter corruption and bribery, Vattenfall has a zero-tolerance policy towards bribery. This means that no Vattenfall employee is allowed to act in the grey zone of what is considered as a bribe. However, it is a difficult balance between a bribe and common business relation practices. The recommendation from Vattenfall to its employees is to consult with their manager in case of uncertainty.

3.2. CSR topics

As earlier stated, the CSR topics addressed in this study are based on the four areas human rights, labour, environment and anti-corruption, which constitute the base of the UN Global Compact.

3.2.1. Human rights

The Universal Declaration of Human Rights was adopted by the UN General Assembly 1948. The aim of the Declaration was to set basic minimum international standards for the protection of the rights and freedoms of the individual (United Nations Global Compact, 2010). Today, the principles of the declaration are considered to be international customary law and do not require signature or ratification by the state to be recognised as a legal standard. It is the most widely recognized human rights instrument and it constitutes the base for the UN Global Compact's two principles for human rights, which are:

- Businesses should support and respect the protection of internationally proclaimed human rights
- Businesses should make sure that they are not complicit in human rights abuses

Even though laws and regulations exist in most countries, human rights may be violated when laws and regulations are not enforced. Companies have a responsibility to respect human rights, regardless of whether the state is unable or unwilling to do so. It is not acceptable for companies to passively accept or participate in human rights violations (United Nations Global Compact, 2010). They need to actively prevent human rights violations within their operations and their sphere of influence by following international law such as the International Conventions on Human Rights and the ILO conventions, as well as voluntary guidelines such as the UN Global Compact and the OECD guidelines.

There are certain circumstances and environments where companies are more likely to face human rights challenges. These include (United Nations Global Compact, 2010):

- Conflict or extreme political instability, failures of the democratic or judicial system, absence of political and other civil rights
- Poverty, drought, extreme health challenges or natural disasters

- Involvement in extractive activities or other activities that might significantly affect natural resources such as water, forests or the atmosphere or disrupt communities
- Proximity of operations to communities of indigenous peoples activities that can affect or involve children
- A culture of corruption
- Complex value chains that involve work performed on an informal basis without legal protection
- A need for extensive measures to ensure security of premises or other assets.

Most global companies are, through their operations and value chain active on markets where several of these factors occur. This makes it crucial to address human rights issues through the organization and its sphere of influence.

3.2.2. Labour practices

The ILO Declaration on Fundamental Principles and Rights at Work (1998) constitutes the base for the UN Global Compact's four principles for labour practices (United Nations Global Compact, 2010):

- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- The elimination of all forms of forced and compulsory labour;
- The effective abolition of child labour; and
- The elimination of discrimination in respect of employment and occupation.

The labour practices of a company encompass all policies and practices relating to work performed within, by or on behalf of the company.

3.2.3. Environment

The UN Global Compact's environment principles are derived from the Rio Declaration on Environment and Development (United Nations Global Compact, 2010):

- Business should support a precautionary approach to environmental challenges
- Business should undertake initiatives to promote greater environmental responsibility
- Business should encourage the development and diffusion of environmentally friendly technologies

The purpose of these principles is to provide an entry point for business to address the key environmental challenges set by the UN, these are (United Nations Global Compact, 2010):

- Loss of biodiversity and long-term damage to ecosystems
- Pollution of the atmosphere and the consequences of climate change
- Damage to aquatic ecosystems
- Land degradation
- The impacts of chemicals use and disposal
- Waste production
- Depletion of non-renewable resources

Businesses on different geographical markets operate under different environmental conditions when it comes to legislation and environmental governance. In many developing countries, the environmental governance is poor and often doesn't have a transparent and good working system of well-functioning environmental institutions, policies, and programs. In these countries, lack of environmental knowledge and resources to achieve good environmental standards are also common problems. These factors make it important for

companies operating on these markets to have a high environmental performance. If organizations in the company's sphere of influence are active in such markets it is important to secure that they also have a high environmental performance, the minimum standard should be following the law.

3.1.4. Anti-corruption

The UN Global Compact's tenth principle addresses anti-corruption (United Nations Global Compact, 2010):

- Businesses should work against corruption in all its forms, including extortion and bribery.

Corruption is now recognized as one of the world's greatest challenges and it represents a major obstacle in the work towards sustainable development. It has a large negative impact on both the society and the private sector. It impedes economic growth, hinders fair competition and represents legal and reputational risks. It also costs a lot of money for companies doing business in regions where corruption is common; the estimated extra cost added is 10% or more for companies. The World Bank has stated that bribery has become a \$1 trillion industry.

3.3. Corporate Social Responsibility at Vattenfall

In its annual CSR report Vattenfall communicates its view on CSR and its contribution to sustainable development. As an energy company, Vattenfall has a great responsibility towards society to provide secure energy supply produced with as little environmental and social impact as possible. The criteria for acceptable impact from energy generation and supply must be set in dialogue with society, within a framework defined by regulation and market mechanisms. Therefore, Vattenfall is engaged in a continuous and open dialogue with its stakeholders regarding their expectations and needs in relation to Vattenfall's activities. Vattenfall is committed to meet the society's need for energy in a responsible and sustainable manner.

Vattenfall has developed five strategic ambitions, which it acts upon to ensure long-term value creation. The ambition for these strategic ambitions is that they should be taken into account in all business activities and decisions and constitute the base for Vattenfall's work related to CSR and contribution to sustainable development (Vattenfall, 2010).

- Number One for the Customer
- Number One for the Environment
- Profitable Growth
- Benchmark for the Industry
- Employer of Choice

At Vattenfall, the Board of Executives is ultimately responsible for Vattenfall's CSR performance. Group Function Communication coordinates Group level communication with certain stakeholder groups such as politicians and global NGO's – local communication is done locally. The CSR Manager's role is to coordinate CSR communication at Group level and support the development of CSR issues (Gyllenpalm, pers.com., 2010).

Vattenfall's view on how to integrate social responsibility in the organization and thereby contribute to sustainable development is in line with the view of ISO 26000 (Gyllenpalm, pers. com., 2010). This means applying the basic principles and the core subjects of social

responsibility, and take practical actions to integrate CSR in the organization, see illustration in figure 7.

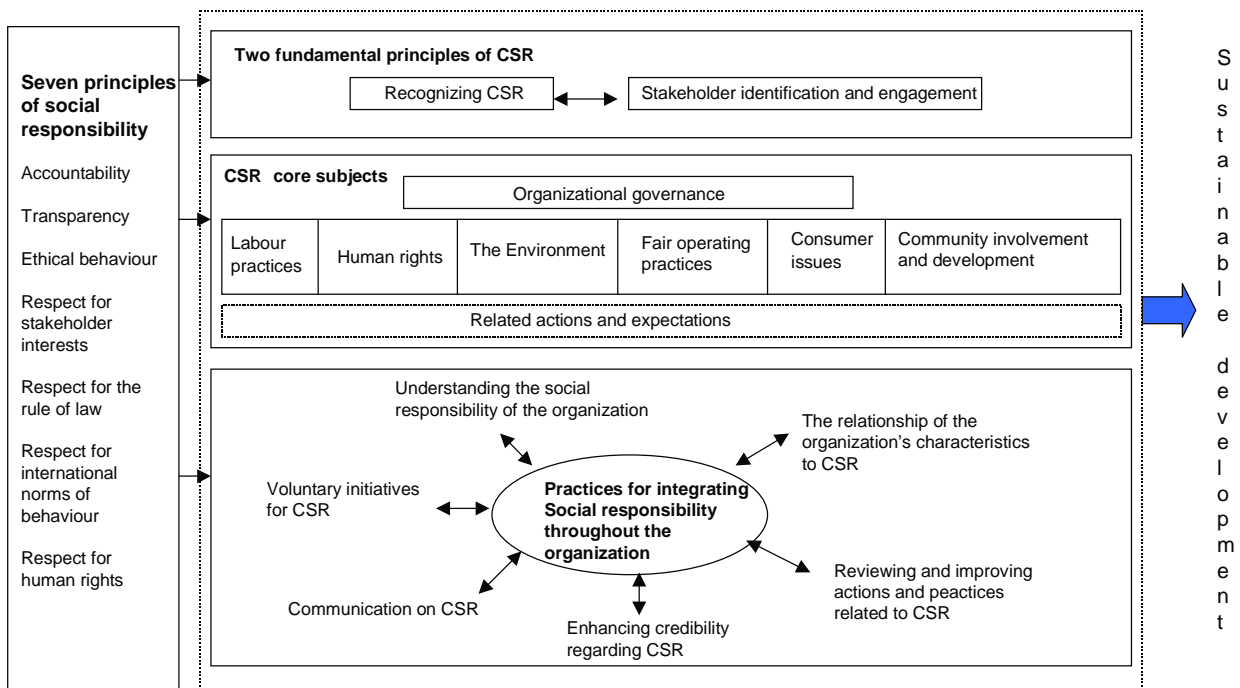


Figure 7. Schematic overview of integrating social responsibility in the organization (ISO/DIS 26000, 2010).

3.4. Mapping of functions at Vattenfall that manage risks and issues

3.4.1. ERM- Enterprise risk management at Vattenfall

The business environment that Vattenfall operates in is complex and uncertain, which makes risk management crucial for business. The risk management process at Vattenfall secures that risks that could pose a threat to Vattenfall's goals are identified and handled (figure 8). The main purpose of ERM is to support the Executive Group Management, EGM, and the Board of Directors and ensure a long-term sustainable corporate development by (Hagland, E., pers. com. 2010):

- Providing support to decision-makers in managing risks and opportunities
- Correct and sufficient risk control

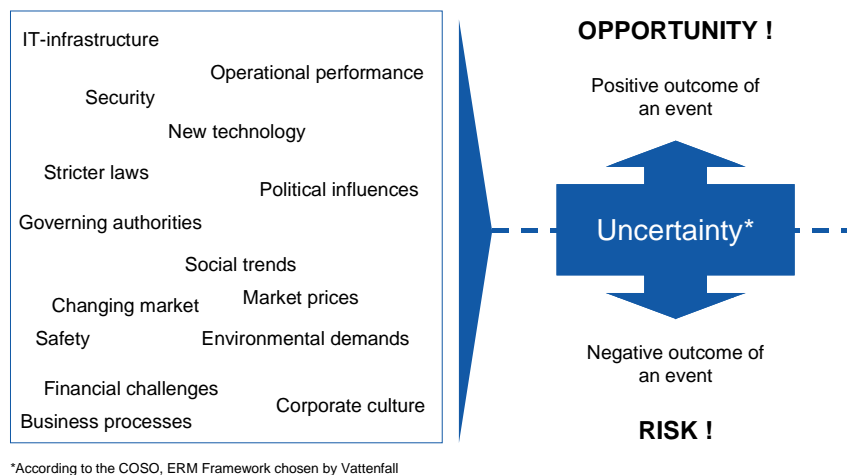


Figure 8. Identification of risks (Hagland, pers. com., 2010).

ERM offers a common method for risk management within Vattenfall that provides the management with information to support decisions and to create risk awareness. It offers a process for identifying, evaluating, managing, and following up, reporting and controlling risks in a transparent way (Hagland, pers. com., 2010). The identification and assessment of risks are performed through workshops and interviews with employees and managers in each business unit. ERM also provides the possibility to aggregate risk exposures into numbers. However, each business unit is responsible for their own risks (Hagland, pers. com., 2010).

The risks that are identified are connected to the following risk fields:

- Technology
- Infrastructure
- Politics and Society
- Law and Regulation
- Personnel and Organisation
- Market and Financial

Vattenfall has identified Nuclear power safety and Environment as high priority focus areas. To ensure responsible risk management within these areas, the Head of Environmental Affairs and the Chief Nuclear Officer have been appointed, with help from specific committees, as responsible for these matters on Group level.

Each quarter, ERM provides Executive Group Management (EGM) with an enterprise risk management report that communicates new risk area, the status for old risks, and a calculated risk value for each risk and for the aggregated risk position. The aggregated risk position value is based on reporting units in the relevant substructures taking into account the risk quantifications done by the respective experts (Hagland, pers. com., 2010).

For each risk the ERM report communicates the following:

- Business unit, risk name, risk field
- Risk value, trend and percentage of Business Unit EBIT (Earnings Before Interest and Taxes)
- Description of the risk
- Responsible person appointed
- Planned action
- Reporting responsible

The report makes it possible for EGM to follow up identified risks, trends and the actions taken to prevent them.

3.4.2. ICM- Incidents & Crisis Management

The objective of Vattenfall's Incident and Crisis Management function is to strengthen the company's ability to handle incidents and crisis (Hörndahl, pers. com., 2010). Their cross-functional structure enhance the preparedness and provide effective and proactive ways of handling events that might lead to incidents and crisis that have an impact on Vattenfall's daily business operations.

The ICM function provides the Vattenfall Group with a governance capability to handle incidents before they happen and, if they occur, prevent them from escalating into a crisis. The ICM function is supposed to act before, under and after an incident or crisis occur (Hörndahl, pers. com., 2010).

ICM has the overall responsibility for the capability of the incident and crisis management throughout the Vattenfall Group. The operational handling of a specific incident will always be the responsibility of the affected business unit. ICM supports their efforts before, during and after an incident or a crisis. ICM enable proactivity. This calls for proactive measures in the daily life of Vattenfall, well before an incident occurs.

- The organisation is active and on constant alert night and day, seven days a week.
- All reports of incidents go to a central ICM unit on Group level.
- The ICM unit consists of Vattenfall experts in crisis management and communications.
- The ICM unit always has access to a member of the Vattenfall top management who is "Director on Duty".
- The ICM team together with reporting responsible for each business group have shorter reporting meetings every morning. On Mondays they have a longer and more extensive reporting meeting where last weeks events and events for the coming week are discussed.
- ICM performs training for incidents and crisis within different parts of the organisation.

3.4.3. Media Relations

Media Relations is responsible for Vattenfall’s interactions with media. The function answers to questions, builds relations and communicates information on events/news. The purpose is to try to influence what is published about Vattenfall, and to nuance the media image. The function collaborates with different media services in order to evaluate the result of this work and in order to stay updated on the latest news published about Vattenfall. It also decides the media strategy for Vattenfall, both its long-term strategy and the short-term strategy for single events and issues (Parent, pers. com., 2010).

3.4.4. Public Affairs

The Public Affairs function belongs to the communication department. It is responsible for contacts with stakeholders such as the owner (the government), politicians, public authorities and NGOs, as illustrated in figure 9 (Ahnfelt, pers. com., 2010). The CSR responsibility within Vattenfall belongs to Public Affairs.

The mission of Public Affairs is to:

- Build strong stakeholder relations to be able to influence opinion
- Convey and create understanding for Vattenfall’s messages in order to achieve licence to operate (lobbying)
- Perform political analysis and intelligence – “early warning function”

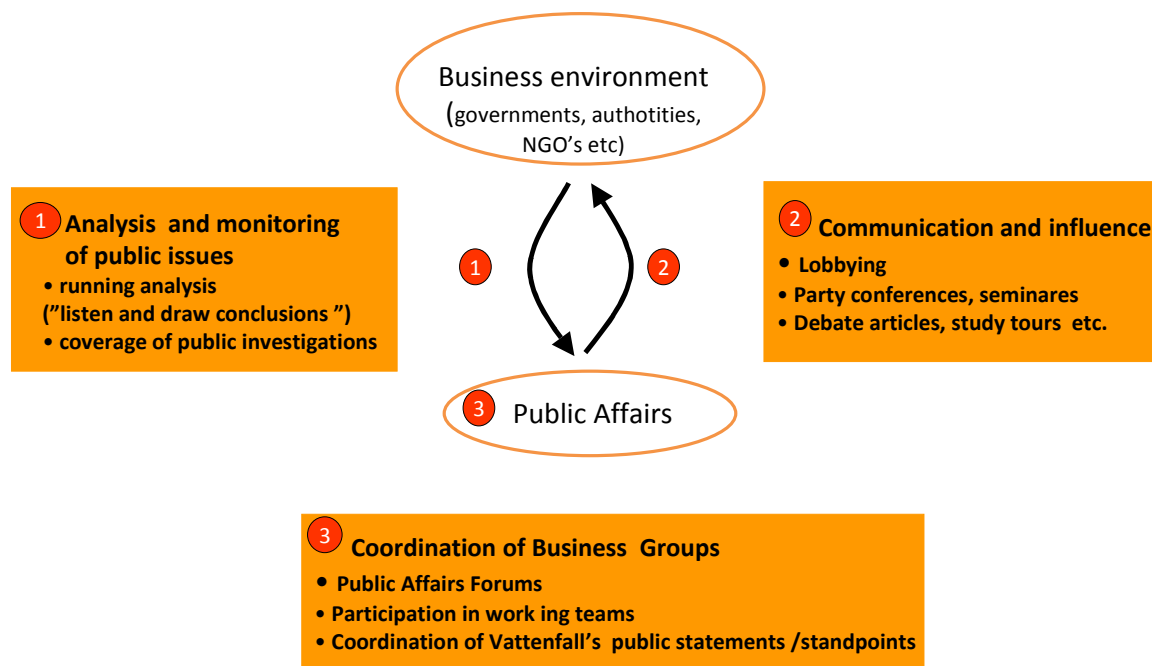


Figure 9. The Public Affairs and the business environment.

3.4.5. CSR network

The CSR manager at Group level coordinates a CSR network, with CSR representatives from each of Vattenfall’s business groups. The purpose of the network is that the network should meet regularly to discuss and support each other in their CSR related activities under the coordination of the Group CSR manager (Fahnestock, pers. com., 2010).

3.4.6. Group Environment

The Group Environment office is part of Group Function Strategy (Vattenfall, 2010). Group Environment supports the CEO⁵, EGM⁶ and the BG⁷ Management Teams regarding the environmental ambitions and commitments of Vattenfall. One of the main objectives of Group Environment is to collect environmental data with the purpose of using aggregated data in internal and external communication, and creating management awareness of environmental performance (Vattenfall, 2010).

Group Environment is responsible for:

- Implementing, maintaining and improving the Vattenfall Group EMS within the framework of the Vattenfall Management System. This includes to develop and propose the Group Environmental Policy and other Group governing documents in the environmental area and to review all Group governing documents with respect to the environmental perspective.
- Identifying improvement needs and proposing to the EGM necessary Group projects and activities based on the monitoring and evaluation of environmental opportunities and risks for the performance and position of Vattenfall.
- Identifying and analysing environmental issues of strategic importance for the Group in the strategy and business planning processes.
- Ensuring that environmental aspects are integrated in the operations and facilitating the exchange of best practise within the Group.
- Ensuring that the CEO, EGM and the BG Management Teams are supported by strategic and operational environmental competence and that environmental governance in the Vattenfall Group is efficiently organised.
- Ensuring that environmental matters are integrated in internal and external communication in co-operation with Group Function Communication.
- Securing that necessary processes and tools are in place for following up and evaluating the environmental performance of Vattenfall.
- Being the process owner of the Group environmental reporting processes and system

3.5. Benchmark for Issues Management

3.5.1. Skanska

Skanska works proactively with issues management. Their ambition is to always be one step ahead of media, NGOs, competitors and other stakeholders (Gimbe, pers. com., 2010). They try to catch media crisis, potential media crisis, CSR risks and political issues related to Skanska's operations at an early stage. This gives the company a chance to collect information from concerned parties, start with measures and be prepared before an incident becomes a crisis. This way, they can prohibit damage to the brand and the organization (Gimbe, pers. com., 2010). They are also interested in catching positive feedback and business possibilities to take advantage of positive experiences in the organization and to create new business opportunities. The issues management is performed under the communication department, and also collaborates closely with the CSR department since it is often CSR related issues that tend to become major media crisis (Gimbe, pers. com., 2010). They started working actively with issues management in 2001.

⁵ Chief Executive Officer

⁶ Executive Group Management

⁷ Business Group

In their issues management they are looking for issues concerning:

- Actions/Activist
- NGOs
- Human rights
- Environment
- Labour practices
- Health and safety
- Customers and suppliers
- Ethical behaviour
- Political statements, attitudes and trends
- Potential projects
- “Good stories”, good examples

Skanska has one person employed 50% to handle the issues management. This person uses five procured services to find information concerning the issues named above, these are:

- Infopaq, which covers digital media in the Nordic countries
- News machine, which covers online media in the Nordic countries
- Essmerk, which covers digital media in Eastern Europe
- Factiva/Dow Jones, which covers international digital media
- News alarm, an sms service that alarms appointed persons within Skanska on newly published articles.

The total cost for the bought services is approximately 600 000 SEK per year (Gimbe, pers. com., 2010).

In addition to these services, Skanska uses free services such as Google alerts and ad-hoc manual search (Gimbe, pers. com. 2010). They also manually cover web pages that are considered as important for certain issues. For example, if Skanska suspects that activists or an NGO are planning an action against Skanska, they manually cover relevant blogs and homepages to stay updated and hopefully find out planned actions in advance. The communication managers on the different markets in the organization constitute another source of information. They are obliged to report all issues of concern in their responsible market, small and big.

Skanska’s issues management is based on being constantly updated on the latest news, as illustrated in figure 11. It is very important to get the information directly after it has been published and to act immediately (Gimbe, pers. com., 2010).

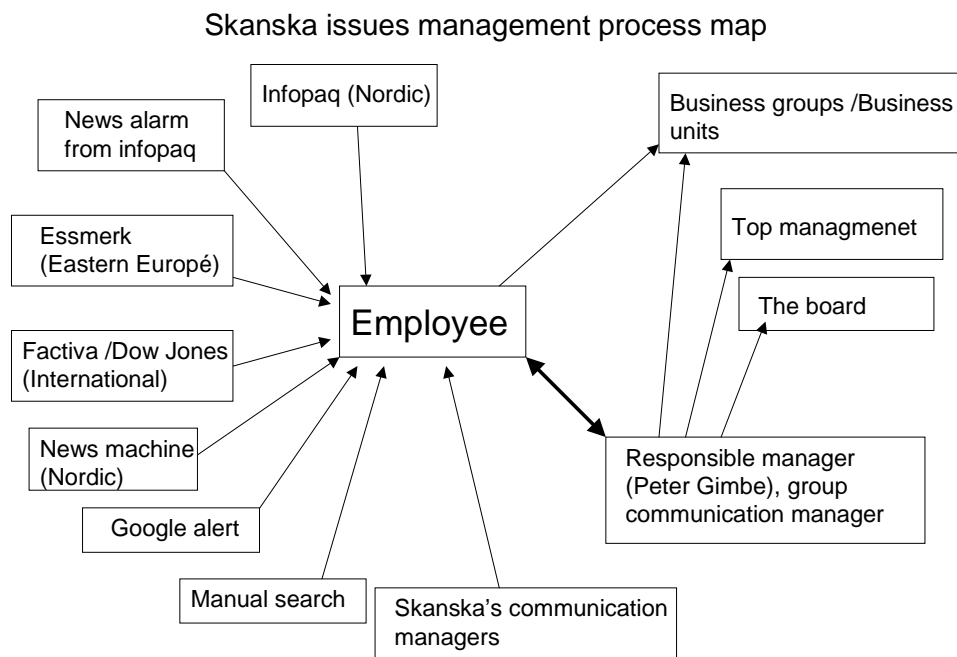


Figure 11. Skanska issues management process map (Gimbe, pers. com., 2010).

After the information has been collected and evaluated, relevant information is reported to the manager who is responsible for the issues management. He decides on the next step. Usually, he calls the concerned business unit to ask if they are aware of the issue and what measures they are planning. If he is satisfied with their answer, the process ends. If not, he tries to find out more information about the issue and contacts the internal audit department for feedback. If it is an issue of high concern, he contacts the top management or the board. Sometimes, it is enough just to inform concerned parties within the organization (Gimbe, pers. com., 2010).

The issues management is an important tool to raise awareness in the organization on CSR risks but also a good tool to show the managers and employees that the head office cares about these issues (Gimbe, pers. com., 2010). The hope is that the issues management improves the behaviour of the organization from a CSR perspective.

3.5.2. Issues management at Nuon

At Nuon, a concept for stakeholder management has been created that includes a process for issues management. The Nuon Board has approved the concept and requested it to be implemented in Nuon practices. They have identified stakeholder management as a “license to operate” and a way to benefit long-term commercial interests of Nuon. In this benchmark, only the issues management process is described. It is important to remember that their issues management is a tool to manage stakeholders and not a process in its self.

This concept for stakeholder management is planned to be part of all projects and the responsibility within a given project lies with the project manager.

The issues management is integrated as a part of the stakeholder management according to following description:
 After identification and mapping of stakeholders, the stakeholder issues are analyzed. Based on this, an issues map is created according to a certain standard, see figure 12, which is used as a tool when identifying issues. When the issues have been plotted in the issues map, the stakeholders related to the issues are identified. Based on the issue mapping, highest priority is given to the stakeholders who have the biggest interests, and not only to stakeholders who hold the most power.

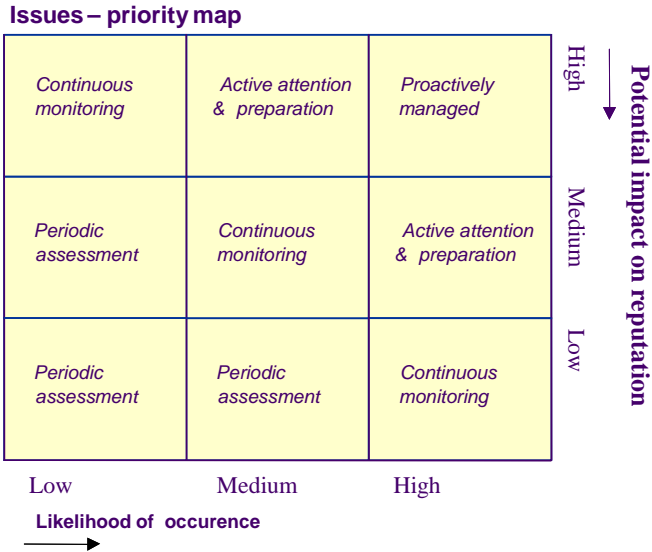


Figure 12. Issues map used in Nuon’s operations to address CSR issues.

The idea is that the stakeholder map and the issue map complement each other. The combination of these two mappings within an interaction table should provide an overview of the stakeholder strategy. In the stakeholder strategy it should become clear which objectives the different stakeholders pursue on each issue and how and when interaction regarding this issue and/or each stakeholder will take place; see figure 13.

Stakeholder	Issue			Concern Stakeholder	Power Stakeholder	Who is responsible	Type of Interaction
	Climate	Nature	Etcetera...				
Government	High	High	Low	Low	High	Sjaak	Inform
Major	High	High	Low	High	Medium	Piet	Inform
Etcetera...	High	Low	Low	Medium	Medium		Dialogue
	Low	Low	Low	Low	Low		Inform
	High	High	Low	High	Low		Dialogue
	High	Low	Low	High	Low		Participate
Issue Approach		Convenant	No Convenant				

High: Importance in analysis proven and fundamental	Medium: Importance in analysis proven, but not fundamental	Low: importance in analysis minimal or not proven
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Figure 13. Interaction table used by Nuon to connect CSR issues to stakeholders.

3.6. Fuels

Vattenfall mainly uses three types of fuels in its operations: uranium, coal and biomass (Vattenfall, 2010).

3.6.1. Uranium

Uranium is a heavy metal that is used as fuel for nuclear power and has very high energy content; one kilogram of uranium equals to 90 tonnes of coal. Uranium is present in bedrock all over the world, but only in low concentration; 2-4 parts per million (Vattenfall, 2010). Uranium ore is primarily mined in Canada and Australia, but also in Namibia, South Africa, Kazakhstan, Niger, and Russia.

Nuclear power is an important component of Vattenfall’s energy mix, representing approximately one third of Vattenfall’s total electricity generation. Vattenfall is a part owner of five nuclear power sites. In Sweden, Vattenfall operates seven nuclear power reactors at two sites; Forsmark and Ringhals. In Germany, Vattenfall is part owner in Brokdorf nuclear site, and operates two: Brunsbüttel and Krümmel (Vattenfall, 2010). Vattenfall Nuclear Fuel performs the procurement of uranium within Vattenfall. They are also responsible for ensuring that all the uranium suppliers follow Vattenfall’s high standards and policies. Therefore, the uranium suppliers are carefully evaluated through on-site visits and assessments according to Vattenfall’s own environmental and social criteria. Vattenfall follows trade recommendations issued by the Swedish Foreign Ministry, the EU and the UN (Vattenfall, 2010).

3.6.2. Coal

Coal constitutes an important component in Vattenfall’s electricity and heat production. In 2008, 46% of the electricity generation and 82% of the heat production was fossil-based. The predominant fossil fuels are lignite and hard coal. Vattenfall uses hard coal in all of its coal power plants in Poland and Denmark, and in one out of four plants in Germany (Vattenfall, 2010). Vattenfall owns and operates lignite mines in eastern Germany, while hard coal is purchased from countries such as Colombia, South Africa and Russia (Alsing, pers.com.,

2010). It is very important for Vattenfall to have high demands on their suppliers in terms of adhering to the UN's Global Compact Principles, which Vattenfall adheres to in its own operations.

3.6.3. Biomass

Vattenfall operates 40 heat and combined heat and power plants that run fully or partly on biomass and use in total more than 3 million tonnes of biomass yearly (Vattenfall, 2010). The largest part of the biomass used consists of waste such as demolition wood, industrial and municipal biogenic waste, manure, sludge and straw. Vattenfall also uses residues from forestry and agriculture. Availability of fuel in the countries where Vattenfall operates varies and thereby the need to import. Since Vattenfall expects an increased use of bio energy, availability and supply security of biomass fuel will become crucial for the operations. Import from countries outside the EU will become more and more extensive. In Sweden, the local and regional supply is good, which limits the need of import. In other countries, import is growing more and more important for the operations (Vattenfall AB, 2009).

One example of this is the supply agreement with Buchanan Renewables Fuel of Liberia that Vattenfall signed during spring 2010. Vattenfall agreed to buy one million tonne of non performing rubber trees from plantations in Liberia over a period of five years (Vattenfall, 2010).

“The trees used to be considered residues and waste and were burnt in the fields. By making fuel chips out of the old trees instead, the farmers receive payment and the trees are reused. It is extremely important for Liberia to renew its rubber industry and increase production”,

Göran Lundgren, responsible for Vattenfall’s biomass investments.

3.7. Vattenfall’s geographic markets

Vattenfall is one of Europe’s largest energy companies, with approximately 40,000 employees and a net sales amounting to SEK 205,407 million during 2009 (Vattenfall, 2010). Electricity, heat and gas constitute the main products of its operations. Vattenfall is diversified geographically and has operations in Sweden, Finland, Denmark, the UK, Netherlands, Belgium, Germany and Poland. The geographical markets are divided in the Business Groups Pan Europe, Nordic, Benelux, and Central Europe (Vattenfall, 2010), see figure 14.

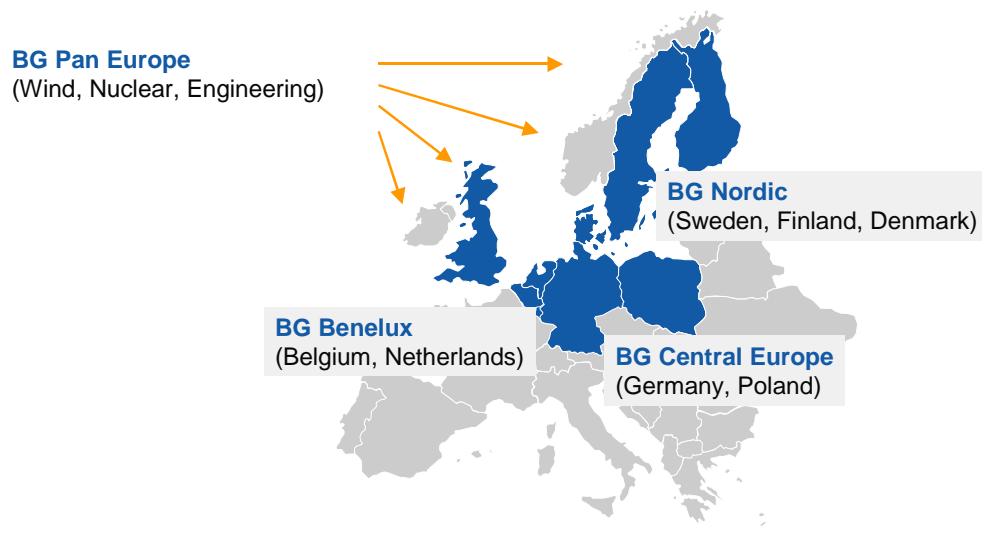


Figure 14. Map of Vattenfall's Business Groups (Vattenfall 2010).

4. Critical voices against CSR and Vattenfall

Critical voices against CSR have been raised among different stakeholders. Especially the stakeholder group NGOs has criticized the concept. Some of them have raised the issue of CSR being Public Relations⁸, and some have compared it to “greenwashing”⁹ (Corporate watch, 2010). Their argument is that CSR sells and that companies gain brand loyalty and attract new customers through appealing to customer's consciences and desires. Companies have been criticized for covering up negative impacts by saturating the media with positive images of the company's CSR performance.

Vattenfall has a long history of being harshly criticized by NGOs for “greenwashing” as well as communicating a false image of the company. One example is the “Climate Greenwashing award 2009” that it received with the motivation (Climategreenwash, 2010):

“Its mastery of spin on climate change, portraying itself as a climate champion while lobbying to continue business as usual, using coal, nuclear power, and pseudo-solutions such as agrofuels and carbon capture and storage (CCS)”.

Greenpeace is one of the NGO that stands out from the others when criticizing Vattenfall. It has performed several attacks against the company, e.g. closed down the head office with the message to stop investments in nuclear and coal. Greenpeace has also, among other accusations, accused Vattenfall of being Sweden's largest climate villain (Greenpeace, 2010). The history of being perceived as the “bad player” makes it crucial for Vattenfall to secure that CSR at Vattenfall is realized in practise, and not used only as a communication tool. Otherwise, promoting the concept will damage the company's brand and reputation as well as its operations.

⁸ **Public relations** (or **PR**) is a field concerned with maintaining public image for high-profile people, commercial businesses and organizations, non-profit associations or programs (Wikipedia, 2010)

⁹ **Greenwashing** (*green whitewash*) is the practice of companies disingenuously spinning their products and policies as environmentally friendly, such as by presenting cost cuts as reductions in use of resources. It is a deceptive use of green PR or green marketing. The term **green sheen** has similarly been used to describe organizations that attempt to show that they are adopting practices beneficial to the environment (Wikipedia, 2010)

4. Results

4.1. CSR risks related to Vattenfall's operations

4.1.2. CSR Country risk assessment

The table below shows an assessment of the CSR risks/performances of the countries relevant for Vattenfall's operations. The sources used are Maplecroft country maps¹⁰, Transparency International 2009 corruption perceptions index¹¹ and an environmental performance index published by Yale centre of Environmental Law and policy at Yale University¹². This country risk assessment gives an indication on how well countries perform on CSR issues.

Table 1. Country risk assessment

Country	Global risk of child labour	Global risk of forced or involuntary labour	Global risk to freedom of association and collective bargaining	Global risk of discrimination	Global risk to corporate governance	Corruption Perceptions Index 2009 The rank shows how one country compares to others included in the index. The CPI score indicates the perceived level of public-sector corruption in a country/territory.	Environmental performance index The index gives an indication on how well countries perform on environmental issues. The index is a combination of how well environmental governance work and environmental vulnerability.
Denmark	Low	Medium	Low	Low	Low	1	Very high
Sweden	Low	Low	Low	High	Low	3	Very high
Finland	Low	Medium	Low	Low	Low	6	Very high
Netherlands	Medium	Medium	Low	High	Low	6	High
Germany	Medium	Medium	Low	High	Low	14	Very high
Norway	Low	Low	Low	Low	Low	11	Very high
United Kingdom	Medium	Medium	Low	High	Low	17	Very high
Belgium	Low	High	Low	Medium	Low	21	High
Poland	High	High	High	Extreme	High	49	High
Countries related to fuels							
Namibia	Medium	Medium	Medium	High	High	56	High
Colombia	Extreme	Extreme	Extreme	Extreme	Medium	75	Very high
Russia	High	Extreme	High	Extreme	High	146	Very high
Australia	Low	Low	Medium	High	Low	8	High
Canada	Low	Medium	Low	High	Low	8	Very high
South Africa	High	High	Medium	Extreme	Low	54	Low

4.1.3. Risk for corruption at Vattenfall: Interview with Örjan Berner, former president of transparency international

According to Berner (pers.com, 2010), most of the geographic markets where Vattenfall has its operations are relatively spared from corruption (table 1). However, this doesn't mean that corruption doesn't constitute a risk for Vattenfall's operations; there have been several scandals related to bribes in northern Europe.

¹⁰ <http://www.maplecroft.com/>

¹¹ <http://blog.transparency.org/2009/11/17/cpi2009/>

¹² <http://epi.yale.edu/>

Berner believes that “friendship corruption”, which means that the purchaser at a company closes a contract on the basis of a personal relationship, constitutes the highest corruption risk for Vattenfall. When it comes to specific geographic markets, Berner believes that the risk for corruption in Poland is higher than in the other countries where Vattenfall has operations. Poland is ranked as number 49 on the Transparency International 2009 corruption perceptions index (table 1), which compared to Vattenfall’s other geographic markets, is a high ranking. He also believes that so-called patriotic corruption might be a problem in Germany, where favoring of German companies is a well-known phenomenon.

When it comes to the countries where Vattenfall has most of its fuel suppliers, it is South Africa, Namibia, Colombia and Russia that have the highest rankings in the 2009 corruption perceptions index. Berner has worked as a diplomat in Russia and is therefore familiar with the problems related to business practices in Russia. According to him, corruption and bribes are common problems, especially when it comes to governmental control. Licenses and permission from authorities are often secured with bribes in advance. In the mining industry, there have been reports on bribes in association with health and safety controls performed by the authorities.

According to Berner, it is unlikely that Vattenfall is involved in actions of giving bribes since it doesn’t have direct customers or clients. However, there is a small risk that purchasers in the organization receive bribes and favor certain suppliers on unethical grounds.

Bribes are often conducted through “agencies”, which constitute a middle hand for money transfer between organizations/companies/governments. These agencies work as cover and make it difficult to detect bribery. Berner believes that the only way to prevent bribes is to have transparent purchase processes with more than one responsible purchaser. He also believes that it is important to provide training to the company’s purchasers on what is considered as bribes, since there is often a grey-zone between bribes and common business practices.

4.1.4. CSR risks related to Vattenfall’s fuels

The CSR risks are summarized in table 2.

Uranium

The countries where Vattenfall purchase uranium are all associated with different CSR risks but also to specific risks related to the mining industry as such. However, the uranium mining industry is highly regulated and continuously reviewed by authorities (Bowen-Schrire, pers.com., 2010).

Coal

The coal mining industry has a history of being under large criticism when it comes to labour, human rights, and corruption as well as environmental issues. Through continuous on-site visits Vattenfall is trying to secure that the coal is mined in a responsible way. However, the coal suppliers constitute a major CSR risk for Vattenfall due to the lack of control and power to influence mining companies as a relatively small customer. Coal mining has a bad reputation and is under constant criticism from NGOs, local communities and other stakeholders. The business unit Trading conducts the hard coal purchase and is responsible for securing that the suppliers comply with the principles of the UN Global Compact (Vattenfall, 2010).

Biomass

From a CSR perspective there are risks connected to the value chain of biomass depending on the type of biomass used and how it is produced, processed and transported. The sustainability issues connected to biomass must be considered and addressed within Vattenfall to secure that the operation as well as the investments are carried out in a responsible way.

The idea of bio energy is very appealing, but it is important to remember that, despite of what most people believe, there are major concerns regarding CSR in the biomass fuel value chain, especially in the liquid biomass fuel value chain (UN-Energy, 2007). The industry is not fully developed and the consequences of large-scale use and production are not known. For example, what will be the consequence of the competition with the food industry? Will it raise food prices, risk food security or push out food crops? What will be the environmental affects? How will it affect the climate? These are all questions that need to be considered when investing in bio energy (UN-Energy, 2007). Producing and utilizing biofuels sustainably and minimizing negative side-effects will require strategic policy decisions and a cautious approach.

Summary of the CSR risks related to uranium, coal and biomass

Table 2. Summary of CSR risks related to fuels in the areas of human rights/workers right, health and safety, environment and other

	Uranium	Coal	Biomass
Human rights, workers right	<p>General risks related to the uranium mining industry include:</p> <ul style="list-style-type: none"> • The treatment and rights of indigenous peoples, who traditionally own 70% of the land used for uranium mining (Economic and Social Council, 2010). • Collective bargaining (UNEP Finance Initiative, 2010). • Right to join trade unions (UNEP Finance Initiative, 2010). • Underpayment/unpaid overtime (UNEP Finance Initiative, 2010). • Treatment of migrant and immigrant workers (such as forced labour, discrimination and underpayment) (UNEP Finance Initiative, 2010). • Discrimination against women / 	<p>General risks related to the coal mining industry include (UNEP Finance Initiative, 2010):</p> <ul style="list-style-type: none"> • Workplace conditions • Collective bargaining • Right to join a trade union • Use of forced labour • Use of child labour • Underpayment/unpaid overtime • Disciplinary practices • Treatment of migrant and immigrant workers • Discrimination against women • Sexual crimes and harassments • Threats to livelihoods due to mining companies exploiting 	<p>Biomass fuel production is much more labour intensive than other fuels. As a result, informal employment has become a quite common problem in this sector, especially in developing countries (UN-Energy, 2007)</p> <p>Another problem is the trend of large-scale farming, which often mean that human workers are exchanged for machines and issues such as poor labour conditions and child labour might occur (UN-Energy, 2007).</p>

	<p>homosexuals (UNEP Finance Initiative, 2010).</p>	<p>natural resources</p> <ul style="list-style-type: none"> • Influx of large, mainly male, migrant populations, which can cause disrupt social cohesion, and spreading of sexual diseases. 	
Health and safety	<p>Health risks in uranium mining are very minor today (World Nuclear Association, 2010). In the 1950s exposure of miners to radon gas led to a higher incidence of lung cancer. Today, the presence of some radon around a uranium mining operation and some dust bearing radioactive decay products are well understood (World Nuclear Association, 2010). Using the best current practice, the health hazards to miners are very small.</p> <p>However, there are large reputational risks due to the traditionally bad reputation of uranium mining. Health concerns addressed by NGOs and media include (Vakil and Harvey, 2009):</p> <ul style="list-style-type: none"> • Cancer • Genetic damage • Birth defects • Mental retardation due to exposure • Indirect effects from drinking/eating livestock, wild life and water that have been exposed to radiation <p>However, health affects from low chronic levels of exposure have not been proven (Vakil and Harvey, 2009).</p> <p>General safety risks for the mining industry addressed by NGOs and media include (Vakil and Harvey, 2009):</p> <ul style="list-style-type: none"> • Poor ventilation • Mine collapse • Explosions caused by released methane • Accidents with heavy machinery 	<p>Safety at work has a long tradition in the coal mining sector because of the difficult working conditions underground and in opencast mines (Euracoal 2010). The EU Directive on Safety and Health Protection of Workers in the Extractive Industries provided new rules for safe workplaces in 1992.</p> <p>Health and safety risks associated with coal mining include (UNEP Finance Initiative 2010):</p> <ul style="list-style-type: none"> • Poor ventilation • Mine collapse • Explosions caused by released methane • Accidents with heavy machinery • Respiratory and skin diseases caused by exposure to dust, chemicals and particles <p>The safety risks vary between countries depending on their safety standards, policies and legislations. Coal mining underground constitutes a higher safety risk than surface mining (World Coal Institute, 2010).</p>	<p>Health risks associated with raw biomass production are similar to those for agricultural production; exposure to pesticide and operation of hazardous machinery (UN-Energy, 2007).</p> <p>For processed fuel, the risk of exposure to hazardous as well as explosive material also needs to be addressed (UN-Energy, 2007).</p>

<p>Environment</p>	<p>The environmental impact can be extensive if the mining process and waste is not managed in a responsible way (World Nuclear Association 2010).</p> <p>Examples of environmental risks include (World Nuclear Association 2010):</p> <ul style="list-style-type: none"> • Contamination of ground/surface water • Lowering of ground water levels due to the extensive use of water in the mining process • The spread of radioactive dust and particles with wind and water, which accumulate in the biosphere. • Major effect on the landscape and disturbance of ground water, especially open-cast mining • Large source for CO2 emissions • Large source for acidic emissions, such as SO2 • Nuclear waste 	<p>The main environmental impacts from coal mining include (World Coal Institute, 2010):</p> <ul style="list-style-type: none"> • Land disturbance • Mine subsidence • Water pollution • Dust and noise pollution • Methane emissions • CO2 and acidic emissions • Soil erosion • Noise • Disturbance of local biodiversity 	<p>The environmental impacts from biomass production depend on the type of biomass produced and the method used (UN-Energy, 2007). However, the growing demand will increase large-scale mono cropping production, which has major effects on land and water resources (UN-Energy, 2007).</p> <p>The main impacts include (UN-Energy, 2007):</p> <ul style="list-style-type: none"> • Deforestation • Contamination of virgin land • Biodiversity loss • Soil erosion • Nutrient leaching • Loss of carbon content in soil, carbon stock in forests and peat lands. • Exploitation of water resources • Climate change/ carbon dioxide emissions • Forest origin <p>The large use of water resources might lead to issues such as legal rights to water in countries with water supply problems (UN-Energy, 2007).</p>
<p>Other</p>	<p>An accident when transporting uranium could cause major contamination of air, water and soil, as well as human injury and health effects (Vakil and Harvey, 2009).</p>	<p>Even though large-scale coal mines have some positive effects for the local community, coal mining often leads to land use conflicts and difficulties in relationships with neighbours and local communities. Especially surface mining has been widely debated and criticized for having major affect on</p>	<p>The competition for land between biomass and food production, but also the competition of water supply and labour raises issues such as food security and increased food prices (UN-Energy, 2007).</p> <p>Another risk is that large-scale farmers will drive small-scale</p>

		surrounding communities, sometimes even forcing people and entire villages to move (Vattenfall, 2010).	farmers out of the market and take over their land, which will lead to deeper poverty (UN-Energy, 2007).
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4.1.5. Case Study: Does biomass has an impact on the climate?

The widespread concern that the increasing concentration of carbon dioxide and other greenhouse gases in the earth's atmosphere are impacting the earth's climate has resulted in the debate to increase the use of biomass with the purpose to replace fossil fuels. Biomass is a renewable energy source that is regarded as carbon dioxide neutral over the long-term (Vattenfall, 2010). The potential to significantly reduce greenhouse gas emissions associated with fossil fuels is one of the main objectives when investing in biomass for energy production. However, the idea of biomass as carbon dioxide neutral is built on the prerequisite that the same amounts of carbon that are released in the value chain are captured by the next generation of growing organic material. It is crucial that this carbon cycle is realized otherwise the use of biomass will not be an effective measure for tackling climate change (Vattenfall, 2010). It is also important to consider that it costs energy, much of it now provided by fossil fuels, to grow and harvest biomass fuel crops and to transport the fuel to a power plant. These additional discharges of carbon dioxide need to be included in the life-cycle of carbon.

Life-cycle analyses that measure emissions throughout the bioenergy production chain indicate a wide divergence in carbon balances depending on technologies used, locations and production systems. Sometimes, the emissions are even greater than emissions from fossil fuels. The life-cycle of carbon dioxide emissions depend on different variables such as (UN-Energy, 2007):

- Land use changes,
- Choice of feedstock,
- Agricultural practices and methods,
- Refining, and
- Conversion processes and end-use practices.

Land and plants represent the planet's largest carbon storage; they contain twice as much carbon as the atmosphere. Recent studies have shown that land conversion from forest, savannah, grassland and abandoned land to biomass crops leads to significant carbon dioxide emissions and 'carbon debts' ranging from few to several hundred years. The carbon debt is the time necessary to counterbalance the carbon dioxide emissions resulting from the conversion of a native ecosystem by mobilising the carbon stocked in the vegetation and organic matter above and below ground (UNEP, 2009). An important aspect in this is which type of land that is being converted. When land with high carbon content, such as forest or peat land, is changed into land used for biomass production, there is an immediate negative effect on the carbon balance and the carbon debts become significant (FAO, 2010). In some regions of the world, deforestation represents a major source of carbon dioxide emissions. Currently, an estimated 15 to 20% of atmospheric carbon dioxide emitted by human activities results from deforestation or, more generally, from changes in land use. For example, it has been estimated that the conversion of tropical forest to palm plantations result in emissions of 535 tonnes of CO₂/ha (UNEP, 2009). Another aspect in the carbon cycle is the transportation. Biomass fuel requires heavy transport from the suppliers to the heat plant, which causes large

carbon dioxide emissions. If the biomass is not produced locally and the carbon dioxide cost of transport is large, the life-cycle of carbon dioxide emissions can be negatively effected (UN-Energy, 2007). However, biomass represents a possibility to make significant reductions of the emissions if the biomass fuel value chain is handled in a responsible and sustainable way. The key is to avoid deforestation, use of virgin land and crops that require high fossil energy inputs such as fertilizer (UN-Energy, 2007).

If the purpose of using biomass is to reduce the carbon dioxide emissions, it is essential to address these issues when purchasing biomass. This can be done by using local suppliers and long-term contracts. Long-term contracts provide the purchaser with the power to address demands on the supplier when it comes to production processes. It also provides the opportunity to review the supplier on these issues before signing the contract.

4.1.6. CSR risks related to the countries where Vattenfall purchase uranium and coal

The CSR risks related to the countries where Vattenfall purchase uranium and coal are summarized in an appendix¹³.

CSR risks related to Vattenfall's mining activities in Germany

Lignite constitutes an important part of Vattenfall's energy production in Germany (Vattenfall, 2010). Lignite mining is a controversial issue both socially and environmentally, with major affects on surrounding communities and nature. These facts pose a problem for Vattenfall since it doesn't only purchase lignite to its power plants, it also owns and operates lignite mines in Germany. Operating lignite mines bring about great CSR risks for the company, and Vattenfall has been under much criticism from stakeholders both in Germany and in Sweden for its mining activities in Germany. The challenge for Vattenfall is to operate these mines as responsible as possible and minimize its consequences for people and environment (Vattenfall, 2010).

Environment

The negative environmental effects from open-cast mining are large. The mine moves slowly across the landscape that it temporarily destroys. It also causes large effects on groundwater, biodiversity, natural habitats for animals and plants, and the atmosphere (Vattenfall, 2010). There is also a risk of harmful discharges, such as heavy metals, but also carbon dioxide. To minimize these effects, Vattenfall works to clear excavated areas of oil and other harmful discharges, restore groundwater levels, recreate natural habitats for animals and plants and encourage sustainable agriculture (Vattenfall, 2010). However, Vattenfall must constantly work to improve its practices in order to minimize the effects on the environment. An important part of operating a mine is the planning of re-cultivation of mined areas. Vattenfall starts the re-cultivation planning during the early planning stages of mining.

Human rights

Lignite mining has large effects on local communities (Vattenfall, 2010). Many villages have been forced to move throughout the years to make room for the moving lignite mines. When moving and resettling a community, it is very important to do so with trust from the concerned people. Resettlement is a long and thorough process made in close collaboration between mining companies like Vattenfall and stakeholders like landowners, villagers and government on local, state and federal levels (Vattenfall, 2010).

Health and safety

German lignite mining is considered as number one for national safety at work. For more than 10 years, the work accident rate dropped lower than 10 notifiable work accidents / million hours (Euracoal, 2010).

¹³ The appendix is not publicly available due to company secrecy.

4.1.7. CSR risks related to Vattenfall's geographical markets

Countries in northern parts of Europe do in general have a high CSR performance. However, there are some CSR risks related to the countries where Vattenfall has operations. The CSR risks are summarized in the tables 3, 4, 5, and 6.

BG Nordic

Table 4. Summary of CSR risks related to BG Nordic in the areas of human rights, labour, environment and anti-corruption

	Sweden	Denmark	Finland
Human rights	<p>As indicated in table 1, the general standard for human rights is high. However, there are concerns regarding (U.S. Department of State, 2010):</p> <ul style="list-style-type: none"> • The treatment of refugees and asylum seekers. The Swedish law doesn't provide an absolute limit on the time length for detention of asylum seekers (U.S. Department of State, 2010) • Lack of legal protection for women and children (Amnesty International, 2010) • Discrimination against women and persons with foreign background (Regeringskansliet, 2010) 	<p>As indicated in table 1, the general standard for human rights is high. However, there are concerns regarding (U.S. Department of State, 2010):</p> <ul style="list-style-type: none"> • The strict immigration and integration legislation • The public political debate concerning asylum and immigrant issues • The treatment of rejected asylum seekers • Non-resolved complaints against Danish police and security forces on ill treatment • Lack of legal protection of women, only one of five reported rapes resulted in conviction 2009 	<p>As indicated in table 1, the general standard for human rights is high. However, there are concerns regarding (U.S. Department of State, 2010):</p> <ul style="list-style-type: none"> • Violence against women • Trafficking • Discrimination against immigrants and ethical minorities • The right to fair trials • Civil military duty
Labour practices	<p>The general standards for labour practices are high. However, there are concerns regarding (U.S. Department of State, 2010):</p> <ul style="list-style-type: none"> • Discrimination and lack of equal opportunity for women and persons with foreign background • Significant gender and salary disparities in some sectors • Trafficking of women and children 	<p>The general labour practices are good. However, there are concerns regarding (U.S. Department of State, 2010):</p> <ul style="list-style-type: none"> • Trafficking of women and children for sexual exploration and criminal purposes 	<p>The general labour practices are good. However, there are concerns regarding (U.S. Department of State, 2010):</p> <ul style="list-style-type: none"> • Trafficking of women, men and children for sexual exploration and forced labour in the construction industry, restaurants and as domestic servants. They often work long hours with low pay and are often unwilling to approach authorities

Corruption	The risk of corruption is low in Sweden, Denmark and Finland (table 1). However, “friendship corruption”, which means that the purchaser at a company closes a contact on the basis of a personal relationship, constitutes the highest risk of corruption for Vattenfall Nordic (Berner, pers.com. 2010).
Environment	As you can see in the country assessment (table 1), the environmental performance is very high in Sweden, Denmark and Finland.

BG Central Europe

Table 5. Summary of CSR risks related to BG Central Europe in the areas of human rights, labour practices, environment and anti-corruption

	Germany	Poland
Human rights	<p>As indicated in table 1, the general standards for human rights are high. However, there are concerns regarding (U.S. Department of State, 2010):</p> <ul style="list-style-type: none"> • The freedoms of speech and press, and right to assembly for extremist groups • The rights and treatment of migrants • Discrimination, racism and xenophobia against migrants • Discrimination against migrants in housing and employment were identified as key concerns in the World report 2010, published by Human rights watch • Governmental and societal discrimination of minority religious groups • Harassment of asylum seekers, racial minorities and foreigners • Violence against women 	<p>The human rights situation has improved. However, concerns that needs to be addressed include (World report, 2010):</p> <ul style="list-style-type: none"> • Discrimination against women • Children’s right • Treatments of homosexual and transvestites • Violence against women • Physical punishment against children is legal and widely used • Long court proceedings and trial periods due to resource problems <p>The European Commission referred Poland to the European Court of Justice in May 2009 for missing the deadline for implementation of three EU directives on gender discrimination. They also raised the concern that discrimination based on sexual orientation remains a serious problem.</p>
Labour practices	<p>As indicated in table 1, the general standards for labour practices are high. However, there are concerns regarding (U.S. Department of State, 2010):</p> <ul style="list-style-type: none"> • Trafficking of children, women and men for sexual exploration as well as labour • Discrimination against foreign workers when it comes to wages and equal opportunity • Salary disparities between men and women 	<p>As indicated in table 1, there are many risks related to labour practices. Examples are (U.S. Department of State, 2010):</p> <ul style="list-style-type: none"> • The law provides that all workers have the right to establish and join trade unions. Still, discrimination against workers who try doing so occurs, particularly in the private sector • In state-owned enterprises, such as the health, water, and forestry sectors, workers have had their employment contracts terminated without notice and replaced by individual contracts to prevent them from joining a union. Sometimes workplaces have been shut down in order to prevent union activity • The government often fail to protect the right to organize and bargain collectively, especially in small- and medium sized companies • Trafficking of women and children for sexual exploitation and men and boys trafficked for labour in the agricultural sector

		<ul style="list-style-type: none"> • Many workers in the construction and agricultural sector earn less than the legislated minimum wage. • Informal labour, primarily in the construction sector • Health and safety. Incidents that lead to injure, seriously injure and death, as well as workers routinely exceeding standards for exposure to chemicals, dust, and noise are common problems
Corruption	As indicated in table 1, the risk of corruption in Germany is low. Still, there have been some reports of government corruption (U.S. Department of State, 2010).	<p>The country assessment (table 1) indicates that the risk of corruption is high. Corruption has received more and more media attention in Poland and the awareness of the problem is growing (U.S. Department of State, 2010).</p> <p>Even though the law provides criminal penalties for official corruption, corruption is a widespread problem in the government and society at large. Political parties and members of the legislative branch, the health care system, and the legal system are assumed to be the most corrupt (U.S. Department of State, 2010).</p>
Environment	Poland and Germany have high respectively very high environmental performance when it comes to environmental governance work and environmental vulnerability (table 1).	

BG Benelux

Table 6. Summary of CSR risks related to BG Benelux in the areas of human rights, labour practices, environment and anti-corruption

	Netherlands	Belgium
Human rights	<p>As indicated in table 1, the general standards for human rights is high. However, there are concerns regarding:</p> <ul style="list-style-type: none"> • Religious and race discrimination (U.S. Department of State, 2010) • The process for asylum seekers (World report 2010:408) • The use of diplomatic guarantees (U.S. Department of State, 2010) • Problematic counterterrorism measures (World report 2010) 	<p>As indicated in table 1, the overall human right situation is high. However, there are concerns regarding (U.S. Department of State, 2010):</p> <ul style="list-style-type: none"> • Overcrowded prisons • Lengthy pre-trial detention • The detention conditions prior to expulsion of children whose asylum applications were rejected • Violence against women and ethnic and religious minorities • Trafficking • Racial and ethnic discrimination on the labour market.
Labour practices	As indicated in table 1, the labour practices in the Netherlands are in general high. However, there are some concerns regarding (U.S. Department of State, 2010):	<p>Discrimination is a common problem in Belgium when it comes to labour practices (U.S. Department of State, 2010):</p> <ul style="list-style-type: none"> • The wages between women and

	<ul style="list-style-type: none"> • Trafficking in the forms of sexual exploitation and forced labour exploitation • Illegal prostitution (prostitution is legal for person older than 18 years old) 	<p>men differ in most sectors, but primarily in the private sector.</p> <ul style="list-style-type: none"> • Lack of access to leading positions for women in both the private and public sectors. • Discrimination against race, ethical background and sexual orientation is also common problems. <p>There have been a few reports on forced and involuntary labour, as well as trafficking of women and children for sexual exploitation (U.S. Department of State, 2010).</p>
Corruption	Corruption is not a problem, there have only been isolated reports of government corruption (U.S. Department of State, 2010).	Corruption is not considered as a problem, even though some cases of bribery and corruption have been reported (U.S. Department of State, 2010).
Environment	Belgium and Netherlands both have high environmental performances when it comes to environmental governance work and environmental vulnerability (table 1).	

BG Pan Europe

Table 7. Summary of CSR risks related to BG Pan Europe in the areas of human rights, labour practices, environment and anti-corruption

	United Kingdom	Norway
Human rights	<p>As indicated in table 1, the general standards for human rights are high. However, national and international human rights organizations have addressed concerns regarding (U.S. Department of State, 2010):</p> <ul style="list-style-type: none"> • The strengthened law of terrorism, which legitimate lengthy pre-trial detention • The treatment of immigrants and asylum seekers • Discrimination when it comes to gender, disabilities, sexual orientation, religion, race and age. • Police misconduct and occasional abuse of detainees • Overcrowded prisons and inadequate prison infrastructure 	<p>Norway has a long tradition of respecting human rights and there is only a small risk of human rights violations (table 1). There have been some reports of violence against women, trafficking and discrimination (U.S. Department of State, 2010).</p>
Labour practices	<p>The general standards for labour practices are high. However, there are concerns regarding (U.S. Department of State, 2010):</p> <ul style="list-style-type: none"> • Trafficking of women, 	<p>The general standards for labour practices are high. However, Norwegian media has criticized the labour sector for discriminating foreign workers (U.S. Department of State, 2010). Two incidents of</p>

	<p>men, and children for labour exploitation in domestic service, agricultural and rural labour, construction, and catering as well as for sexual exploration.</p> <ul style="list-style-type: none"> • There is legislation on minimum wages, but it is not always complied with. 	<p>racial discrimination in the public sector created a big media scandal in 2007. This indicates that these issues are taken very seriously in Norway and thereby constitute a reputational risk for companies active in Norway.</p>
Corruption	<p>Corruption does not constitute a large risk in the UK. Still, there have been some reports concerning official corruption in the political parties. Especially the labour party has been accused, which led to the general secretary's resignation in 2007 (U.S. Department of State, 2010).</p>	<p>The general risk of corruption is low (U.S. Department of State, 2010).</p>
Environment	<p>Both the United Kingdom and Norway have high environmental performances when it comes to environmental governance work and environmental vulnerability (table 1).</p>	

4.1.7. CSR risk related to the supply chain

In addition to Vattenfall's procurement of fuels, Vattenfall spends 5 billions of Euros every year on the procurement of goods and services to support the delivery of Vattenfall's business activities (Vattenfall, 2010). Thereby, the Vattenfall value chain includes a large number of suppliers that deliver products manufactured all around the world. These suppliers are included in Vattenfall's sphere of influence, which means that it is Vattenfall's responsibility to secure that its suppliers and sub suppliers act according to international norms and are compliant with Vattenfall's high standards. A tool to secure this, is to make sure that Vattenfall's suppliers meet the requirement to agree and act according to Vattenfall's Code of Conduct for Suppliers, which is based on the ten principles in the UN Global Compact.

Of total goods purchased, the majority are purchases on local markets (86% on the Nordic markets, 98% in the German market and 99,8% in the Polish market), where regulations and legal frameworks are well established and the risk for violations against the code is relatively low (Karth, pers.com. 2010). However, these suppliers have, in turn, their supply chains and that is where the large CSR risks hide. Vattenfall must work actively to minimize these CSR risks and act quickly on emerging CSR issues related to the suppliers and sub suppliers.

4.2. The structure for a CSR issues management process at Vattenfall

The purpose of a CSR issues management process at Vattenfall would be to identify, analyze, monitor and report on emerging and ongoing CSR issues related to Vattenfall's operations. In the Vattenfall organization, issues and risk management are already being performed, but with other focus areas than CSR. An important part of an effective CSR issues management, would be to integrate and connect with the work of the already existing issues- and risk management processes to achieve a process that benefits all parties involved.

4.2.1. Recommendation on process for CSR Issues Management

The process for CSR Issues Management should be based on two-way reporting and collaboration between different parts of the organization. The collaborating functions would constitute a CSR issues management network, which should include Incident and Crisis Management (ICM), Public Affairs (PA), Enterprise and Risk Management ERM, Media Relations, Group Environment, Group Procurement and the CSR network.

The heart of the CSR issues management should be a central function at Vattenfall Group that reports to the CSR manager at Vattenfall. The task would include collection of information from external and internal sources, identification of CSR issues that are or might be relevant for Vattenfall's operations, monitoring of the identified issues, analysis of the issues and reporting to the CSR manager, as well as to the other functions in the network. A short summary of all issues and how they have been managed should be stored in a computer file (for example in livelink). The CSR issues management should contribute to a mapping of CSR issues, which should be used as a tool to address CSR issue in the organization. The idea of the CSR issues management is that should contribute to the work of improving Vattenfall's operations and business behaviour.

The appointed officer/administrator of the CSR issues management should take part in and report on the meetings and workshops held by the other functions in the network. For example:

- S/he should take part in and report on emerging and ongoing CSR issues at the ICM team's weekly reporting meeting where last week's events and events for the coming week are discussed.
- S/he should also routinely report to the ERM team to help them with the identification of CSR related risks for their quarterly enterprise risk management report to Executive Group Management, EGM.
- S/he should take part in the weekly internal meetings held by the Public Affairs and report on emerging and ongoing issues.

By participating in each other’s processes, a mutual platform of information exchange can be built, which will benefit all included functions as well as the company at large. The suggested CSR issues management process is illustrated in figure 15.

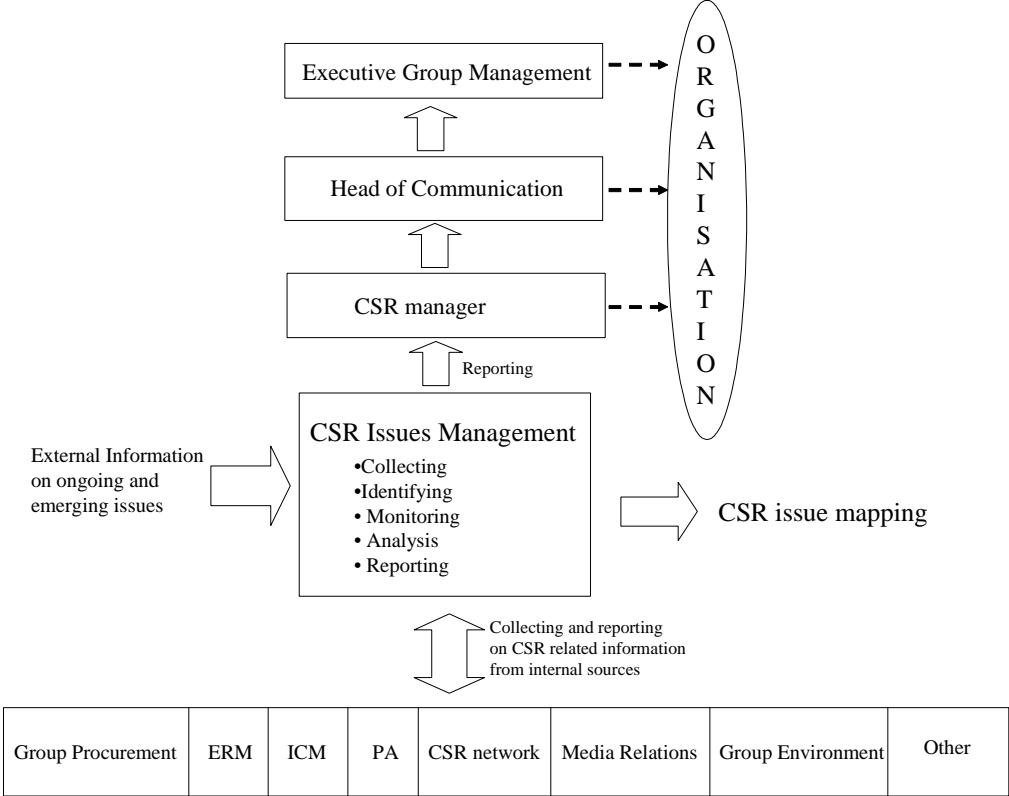


Figure 15. CSR Issues management process.

Collecting Information/news/publications:

When collecting information/news/publications, both internal and external sources should be used, see figure 16 for illustration. External sources should be constituted by news services, manual search tools online as well as manual non-digital sources such as newspapers. The digital manual search and the news services should cover the latest news published on the Internet, discussions on blogs and other forums of information. Stakeholder dialogues also constitute an important external source of information on upcoming/emerging CSR issues and risks.

ERM, ICM, Public Affairs, Media, Environment and the CSR network, as well as employees and other functions in the organization, should constitute the internal sources (figure 16). The relationship between the functions in the CSR issues management network should be based on information exchange, which will benefit all parties involved.

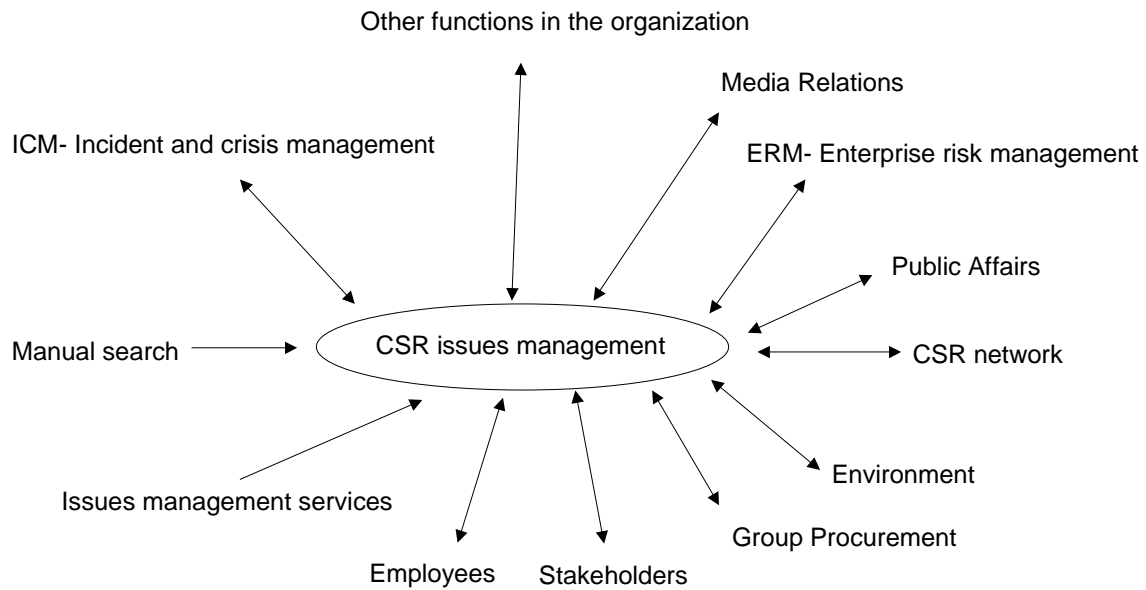


Figure 16. Illustration of collection of information from internal and external sources.

Identification:

The officer/administrator of the CSR issues management should filter the collected information and identify emerging CSR issues/concerns relevant for Vattenfall. The criteria used in the identification process should be:

- Is the issue/concern connected to a risk area in Vattenfall’s operation?
- Is it likely that the issue/concern will cause external attention in the near future or in the long-term?

Analysis:

The identified CSR issue should be analyzed answering the following questions:

- Which are the possible impacts on Vattenfall?
- Might it cause harm to the Vattenfall brand? To the image? To Vattenfall’s operation?
- Which are the different possible outcomes of the emerging issue?

The analysis will result in a risk ranking of the issue and the result from the analysis should decide how the issue should be further handled in the CSR issue management process. The issue will, based on the ranking, be categorized as a low, medium or high risk issue and plotted in a situation table that provides an overview of current identified issues and their status. The situation table should be continuously updated (figure 17).

Low-risk issue	Medium-risk issue	High-risk issue

Figure 17. CSR situation table

The action plan for a low-risk issue should include:

- Report on the issue to concerned parts in the CSR issues management network and the CSR manager
- Write a short summary of the issue and store it

The action plan for a medium-risk issue should include:

- Report on the issue to concerned parts in the CSR issues management network and CSR manager
- Depending on the issue, inform concerned parts in the organization
- If needed, start discussions on actions to prevent the issue to develop further
- Write a short summary of the issue and store it

A high-risk issue should be treated fast and effectively. The action plan should include:

- Alarm the CSR manager immediately, and s/he should take the decision if the Head of communication and the top management should be informed.
- Thereafter, inform concerned parts of the CSR issues management network about the issue and start a mutual effort to handle the issue
- The next step, after discussions with the CSR manager, is to contact the concerned parts in the organization to inform about the issue but also to start actions to prevent the issue to develop further
- Write a summary of the issue and the process that was performed to manage it, and store it

Monitoring:

The external attention on an issue can quickly change focus and become critical for the organization, which makes it important for the company to stay updated on the development of issues. Therefore, identified CSR issues should be under constant monitoring. The monitoring of issues should be prioritized according to the risk ranking performed in the analysis step. The risk ranking illustrates the status and priority of CSR issues that are currently under observation.

In the monitoring process, external and internal sources for information should be used, both passively and actively.

The monitoring process should actively monitor issues ranked as medium and high-risk issues, since those issues and their development might be critical for the organization.

Examples of what an active monitoring process should include are:

- Provide the news services with search words connected to the issue. This will increase the search capacity and probability to find the latest published articles/news/blogs connected to the issue.
- Manual efforts to monitor the issue and its development on the internet as well as among non-digital sources should be extended.

Passively monitoring of low-risk issues should only be performed as a part of the everyday scanning of collected information from internal and external sources. If the issue starts to gain increased attention, the risk ranking will be updated, and the monitoring process should upscale and become active.

Reporting:

The officer/administrator of the CSR issues management should provide weekly reports to the CSR manager on the status for identified CSR issues, who should decide which issues to be further reported to the Head of communication. S/he should also report routinely to the CSR issues management network.

All relevant information on the issue should be stored.

Hot topics

Issues that receive large attention in the media, both negative and positive, should be highlighted and commented on the Vattenfall external webpage for Vattenfall Group. A flap on the webpage called “Hot topics” should be created and used to address issues. This way, Vattenfall can address its own view on issues and prevent stakeholders to seek information in other media that might provide misleading and/or incorrect information. This can prevent damage on the Vattenfall brand and image.

Managing CSR risks in the supply chain

To manage the CSR risks in the supply chain in a preventive way, the ten largest and most critical suppliers in the Vattenfall supply chain should be identified and reviewed together with Group Procurement. The identified suppliers should be monitored regularly.

The aim of the review should be to secure that suppliers are adhering to Vattenfall’s Code of Conduct for Suppliers. If the review shows a high risk of non-compliance, the CSR issues management should actively monitor the supplier. Group Procurement is responsible for more

extensive consequences; such as re-evaluation of the company’s qualification as a Vattenfall supplier.

The monitoring process should catch activities performed by the suppliers that violate the code. If this situation occurs, the officer/administrator of the issues management should:

- Inform Group Procurement and the CSR manager
- Start a discussion with concerned parts within Vattenfall on actions towards the supplier. One example of action could be to contact the supplier through email or letter and request it to manage the issue in a responsible way.
- Write a summary of the issue and the process that was performed to manage it, and store it

Engaging stakeholders

As a part of the external collection of information, but also as a strategy to be able to predict upcoming CSR issues and identifying new CSR risks, a continuous stakeholder dialogue with identified critical stakeholders should be conducted. This should be performed on both a regional and global level, and the result should be reported to the CSR manager as well as concerned functions in each BG and on Group level.

On a local level, the appointed persons in the CSR network should be responsible for engaging with stakeholders in their respective Business Group (BG). As a first step, each BG should, with help from the CSR network, identify their critical stakeholders. In this work, it is important to collaborate with other functions at each BG that have stakeholder contact. The next step would be to establish and maintain a relationship with the identified stakeholders and conduct continuous meetings with them to discuss their expectations on Vattenfall. The result from the dialogue should be reported to and discussed in the CSR network as well as with concerned functions in each BG.

The same procedure should be conducted on group level with global stakeholders. The issues identified as a result from the stakeholder dialogues should be plotted in an issues map (figure 18), which should be communicated to concerned parts in the Vattenfall organization and used as material for the yearly selection of topics for the CSR report.

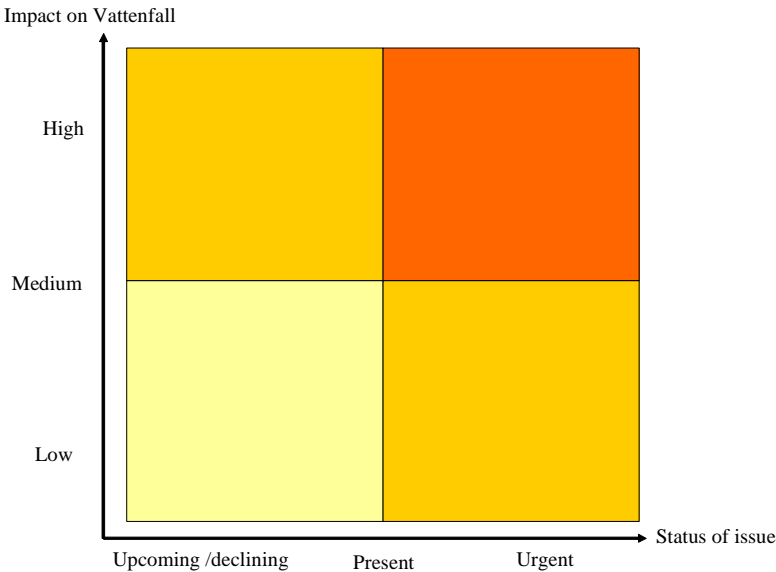


Figure 18. Issues map.

5. Discussion and conclusions

The CSR risk identification in this study only gives a general overview of the CSR risks since it was conducted through desktop research and interviews. The sources used were mainly reports from government and public agencies such as the Swedish Ministry for Foreign Affairs, U.S. Department of State and the United Nations. Also some independent sources such as Transparency International, Human rights watch and Maplecroft were used. However, the information collected from Vattenfall's own material can be questioned for not being critical enough. Most interviews were conducted with experts within the Vattenfall organization; an expanded study, including independent experts outside of the organization, might have given a broader and more correct picture of the CSR risks.

The result shows that the largest CSR risks for Vattenfall are technology related, i.e., connected to the fuels used in Vattenfall's power plants and their value chain. Uranium, coal and biomass are purchased from countries all over the world. In some of them, the overall standards for human rights, labour, anti-corruption and environment are low. In addition, the mining industry has a long history of being criticized for its negative impact on society and the environment. Therefore, the purchasing of fuels is a great reputational/image risk since it constitutes a hot topic in the media and is under constant watch from NGOs.

The CSR risks related to Vattenfall's home markets were also identified. The result showed small CSR risks in the areas of human rights, labour, environment and anti-corruption since these countries in general have a high CSR performance. However, this doesn't mean that the reputational/image risk is small. In these countries, the expectations on companies are high, which means that small mistakes can have large consequences. Environmental mistakes, cases of corruption and black labour receive large attention by the media in these countries, which often ends up damaging company brands. The fact that they constitute Vattenfall's home markets makes them critical. It is very important for Vattenfall and its operations that it has a good reputation among its most important stakeholders.

A process for identifying and monitoring critical suppliers as well as a process for stakeholder engagement on a local and global level is proposed. The critical aspect of a successful CSR issues management is to integrate the already existing issues and risk management functions with the CSR issue management. It is important that the CSR issues management process doesn't become an independent and shielded process within the communication department. The proposal is built on a mutual collaboration between the CSR issues management and the functions Incident and Crisis Management (ICM), Enterprise Risk Management (ERM), Group Procurement, Public Affairs (PA), Group Environment and Media Relations. Structured and transparent channels between the CSR issues management and the functions need to be built. If an issue arises, it must be managed quickly and effectively through these channels and, if needed, to the management, in order to minimize the risk that it develops into a crisis. At a company such as Vattenfall, this is a challenge. The functions are often independent from each other without clear communication channels between them. I believe that it is very important for the functions to interact to become more effective and prohibit duplications of work as well as increase the understanding of the purpose of the different functions. A greater collaboration would create a greater unity of the company.

It's is of great importance that CSR at Vattenfall doesn't become an act for the stakeholders to make the company look better than it actually is. The CSR issues management shouldn't be used as a tool to hide issues - it should be used as a tool to address them with the purpose to improve business behaviour and operations. The fact that Vattenfall has been accused of

“greenwashing” by several NGOs, e.g. Vattenfall received the Climate Greenwash Award 2009, makes it important that real improvements in the operations are being conducted. Vattenfall should not be an expert at presenting itself as a sustainable and leading energy company, it should act as one. The CSR issues management process should be used as a tool in the work of achieving this and result in improvements of business behaviour and operations.

5.1. Next steps

- The CSR issues management officer/administrator should be appointed. He/she should start planning the implementation of the process.
- At an early stage, the concept needs to be discussed with the functions included in the CSR issues management network. Their opinions and thoughts need to be taken into account before implementing the concept in the organization. A workshop is recommended for this.
- The purchasing process of news services should be done in collaboration with ICM, which is planning to purchase the same type of services. The services should include all of Vattenfall’s markets, both local and global. However, Media Relations already purchases these kind of services, therefore it should be evaluated if their material can be used before starting to purchase new services. A scanning of Media Relations’s received material could benefit the entire communication department if the findings are shared.
- The practical details of the proposed process need to be solved.

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Other

Berner, Örjan, *Former president of Transparency International*

Gimbe, Peter, *Skanska*

Appendix

The appendix is not publicly available due to company secrecy.