



STORA ENSO Case Study

A centralized approach to sustainable
business practices

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Introduction

This case describes Stora Enso's efforts to become a more sustainable and ethical company.¹ The case focuses on the integration of both strategic decisions and practical work on sustainability issues into a global organization in which history is ever-present and the balance between centralized and local functions is key. Stora Enso's position as a global industry leader has been demonstrated by consistent work on environmental sustainability since the 1960's. What makes this case particularly interesting is that Stora Enso has made steady progress on environmental sustainability while being challenged on issues of social responsibility and business ethics. The case covers a period of 50 years, but the main focus is on the years 2012-2017 when the company ran into trouble regarding responsible behavior and, in response, initiated a series of activities to strengthen internal practices and restore the reputation of the brand.²

A long tradition of sustainability work

2016 is the year in which Stora Enso began harvesting the fruits of the intense work to rebuild trust in the company as a responsible business. By exploring the possibilities of turning renewable materials into new products the company has become the leading global provider of renewable solutions in packaging, biomaterials, wooden construction and paper. It has also managed to consistently 'walk the talk' on sustainability and corporate responsibility, as acknowledged in several awards and the research reports 'Walking the talk' 2015 and 2017, published by MISUM (SSE).

Stora Enso in numbers 2016

Sales: 9.8 Billion EUR
Employees: 25.000 in 35 countries
Shares listed on Nasdaq in Helsinki (STEAV, STERV) and Stockholm (STE A, STE R).

With industrial roots going back to the 1300's, the company has consistently addressed new business challenges and - through divestments, mergers and acquisitions - grown to be a global player in renewable materials. As a company working in symbiosis with nature, sustainability has always been at the core of its business. And conducting business for more than 700 years is in itself proof of sustainability. Consequently, Stora Enso's self-image is of a company with a long and vivid history of conducting business sustainably and responsibly. This image is grounded in a

¹ This case is written within the framework of a research project that explores the linkages between responsible leadership, sustainable business, innovation, and growth in Swedish-based corporations with a global outreach. The purpose is to capture how ideas about responsible behavior are expressed in daily work and practices. A handful of organizations were invited to take part in a series of round-table discussions focusing on their own challenges and evolved practices. The participants in these discussions were leading professionals, business managers, academics, and policy-makers. For the learning to be disseminated more widely, each session was complemented and documented as a case study. The discussions took place between March 2016 and February 2018.

² The text is based on round-table discussions, interviews and documentary data. Valuable contributions were made by the Executive Vice President, the Legal General Council and Country Manager Sweden, the Executive Vice President Communication, and the Head of Sustainability Communications.

strong belief that caring for the environment is – and has been - the company’s key success factor.

The sustainability work within Stora Enso has been first and foremost associated with forestry activities and environmental sustainability. It is within these areas that the company has positioned itself as a trustworthy industry leader with a solid reputation. But while the company has earned respect for its hard work on sustainability, it has also endured a series of setbacks.

As the world changes, norms and expectations regarding business behaviors evolve. Today Stora Enso defines sustainability in a number of areas such as compliance, human rights, business ethics, use of natural capital and community investment. However, the focus of the company’s sustainability work and the organization of this work have shifted over the years, and failures and misconduct have received full media attention and calls for action.

History of Stora Enso

Stora Enso was formed in 1998 through the merger of the Swedish company Stora Aktiebolag (Stora) and the Finnish company Enso Oyj. With roots going back to the 1300’s the company has managed to successfully address many business challenges and structural changes.

The first recorded documentation of Stora operating as a company was in 1288, in copper mining near Falun, Sweden. This business expanded to become Stora Kopparbergs Bergslag in 1862, encompassing mining, iron and wood activities. While this was several hundred years before any pulp, board or paper was produced, forestry was already a central part of the company. Wood was needed for construction, fuel and for heating the copper ore to extract the metal. In the 1970’s Stora sold its mining and metal operations to focus on forestry, pulp and paper.

The Enso part of the company dates back to 1872 when the W.Gutzeit & Co sawmill was founded in Kotka, Finland, by Norwegian Hans Gutzeit. By the late 1990s, through a number of mergers and acquisitions over the years, Enso-Gutzeit had become Finland’s largest forestry company. In 1996, after a merger with Veitsiluoto, the company took the name Enso Oy.

From 1998 to 2016 Stora Enso went through several major structural changes including acquisitions, divestments and joint ventures.

From biologists in the 1960’s to sustainability accounting in the 1990’s

Stora Enso has moved from being an international paper company to a global renewable materials company, a journey that has included structural changes as well as initiatives to promote sustainable business and responsible leadership.

Bringing in biologists

In the late 1960’s the main environmental issue of concern in Sweden was the use of chemicals in forestry (‘lövbekämpning’). Protests from environmental organizations were fierce and activists from different groups organized demonstrations and took part in public debates. The backdrop was research that evidenced changes in ecosystems. A Group Level Manager states:

“We responded early to the demands of the environmental movement and the so-called ‘kälhyggesdebatten’ and one of our actions was to bring in ecologists and biologists to implement ‘sustainable forestry’,”

Hence sustainability was primarily associated with environmental issues, to which Stora directed its resources. The company gained respect for bringing in ecologists to lay the groundwork for sustainable forestry. This was also the first step towards structured environmental sustainability work within the industry.

The focus on environmental work continued and in the late 1970’s the company took another major step and recruited a Manager of Environment. The sustainability work was also organized to address issues related to land use.

Illegal cartels and the first steps towards an ethical company

In the late 80’s and 90’s Swedish authorities launched several competition and cartel investigations into the company. When top management realized the seriousness of the company’s situation, the CEO at the time decided that Stora should cooperate fully with the investigating commission and take the necessary actions to become an ethical company. The Executive Vice President, who is also Country Manager of Sweden and Head of Legal describes the situation:

“We were very open and transparent and decided to put all our cards on the table. We became the star witness even though that didn’t give us any benefits in the legal process. This was a significant first step in building an ethical profile for the company.”

As a response to the investigations Stora developed its processes and policies on business ethics. The company also initiated a competition law compliance program, thereby becoming one of the first companies in Sweden to adopt this type of program. The Executive Vice President, who has been with the company since the 1970’s, describes the situation at the time:

“Looking back to the end of the 1990’s and the beginning of 2000, sustainability was not that strongly rooted in the business. However, as more customers asked for evidence that our operations were sustainable, we improved our processes. Various sustainability certifications for forestry and products were achieved, which really helped the business managers to understand the importance of integrating sustainability into operations. This was a clear win from a commercial perspective. Yet there still wasn’t a holistic understanding of sustainability. Rather, people in operations felt that a broader take on sustainability was an act of bureaucratic control from group level executive management. Also the executive management group’s view of sustainability was somewhat limited. It was understood that action was necessary, but our team didn’t ‘breathe’ sustainability. Even though the team was aware of the issues and supportive of the actions, sustainability was regarded just as something that had to be taken care of – more like accounting, so to speak.”

The merger of Stora and Enso – a new take on sustainability

After the merger between Stora and Enso in the late 1990’s, the work on sustainability took a new turn. While previous work had focused on environmental issues and programs to combat illegal competition practices, international expansion and new markets brought new challenges, particularly relating to social responsibility and business ethics. The new challenges and the

recruitment of a Vice President of CSR (VPC) in 2002, were strong drivers for a new take on sustainability. The new head launched many initiatives and started sustainability and compliance work in new areas. One important initiative was to replace the many “scattered principles” with a platform integrating the different aspects of sustainability.

The VPC brought the environment managers and legal department together to set targets, to measure their work against an index and to undergo validation. Co-operation between different functions was recognized as being essential for good performance. A top-level manager recalls:

“The Vice President of CSR played a significant role in driving a more holistic view of sustainability work within the organization. She embraced all the sustainability issues and got us started, for example, on sustainability audits.”

Stora Enso was by no means the first company to address a broader range of sustainability issues. But by acting decisively and doing its homework the company, once again, received praise. Executive Vice President Communication states:

“We got a lot of attention for measuring our work against sustainability indices and for becoming more accountable to external stakeholders. Initially we were the only forestry company, and then later the leading forestry company, in the Dow Jones Sustainability indexes.”

Despite the broader approach to sustainability, the responsibility for carrying out the actual work was delegated to the divisions. A Group Level Manager explains:

“Sustainability issues were associated with quality and production, which traditionally were delegated to the divisions. So it seemed obvious to delegate sustainability issues to the divisions too.”

Elaborating on this decision, he adds:

”By delegating responsibility to people close to the operations, ownership of the issues was placed in the divisions, and this was positively received. On the negative side was the fact that the center lost the overview and control of what measures the divisions were actually taking.”

In line with company tradition and practice, Stora Enso thus adopted a decentralized approach to developing and implementing sustainability in the daily operations. This was true for all sustainability areas except legal, which was still organized and managed from the center. The main rationale for this was that the global Head of Legal was also the head of operations in Sweden. He had been with Stora Enso for many years and, as a lawyer, he was quick to engage himself in business ethics and compliance work within the company. Consequently, the legal aspects of sustainability remained centralized.

Ethical issues surface in North America, China and Pakistan

Entering the 21st century, Stora Enso ventured into new markets and expanded its investments. While the sustainability challenges of previous decades had related to environmental issues and

illegal competition practices, questions about 'how business is to be done' rose up the company's agenda. Triggers included accusations about misconduct and unethical behavior.

Double book-keeping in Consolidated Papers

In 2008 Stora Enso was openly accused of double book-keeping in its operations, specifically in relation to its holding of Stora Enso North America (formerly Consolidated Papers). The investment in Consolidated Papers had been made in 2001, and had been described as "huge" in the Swedish media. The accusation of double book-keeping was framed by statements and reports claiming that the deal was one of the worst ever made in Sweden (with an estimated loss somewhere between 23 and 29 billion SEK). Soon enough the crisis was a fact. The Country Manager, Sweden, explains the situation:

"We had a period of in-depth accounting and audit checks, which was very traumatic, especially since the issue was very well managed from a compliance perspective. All the relevant parties, such as authorities, partners and accountants, were satisfied and corrections were made. But there was absolutely no communications strategy."

The Red Forest Hotel and mistreatment of local land-holders in China

Another venture that came under public scrutiny, a few years later, was an investment made in the early 2000's in eucalyptus tree plantations in the Guangxi province in China. In this case the trigger was a report from a not-for-profit organization. The Rights and Resources Institute investigated the venture and accused Stora Enso of intimidating local people holding land rights and of illegal land-grabbing. A documentary about Stora Enso's land leasing practices in Guangxi, called the Red Forest Hotel, was broadcast in 2012. The documentary was made by a Finnish film director. The response within Stora Enso was described as follows by the Head of Legal:

"Stora Enso was affected by the accusations of mistreatment of local land-rights holders in the Red Forest Hotel documentary, but at the time the organization could handle the situation. The system within the organization could respond to the questions that were asked, learn from them and make improvements."

Child labor in the supply chain in Pakistan

In March 2014 a Swedish documentary revealed that child labor was being used in the supply chain of Stora Enso's minority investment in Pakistan, Bulleh Shah Packaging (BSP). The documentary showed that children had been working in recycling operations under terrible conditions.

The reactions to the news were immediate and fierce. Customers and owners threatened to leave the company and the public was outraged. Even though the operations in Pakistan were within the packaging division, customers from other divisions and from different parts of the world stopped buying or threatened to do so in accordance with their own policies and rules on supplier code of conduct. Since there was no central function within Stora Enso to deal with this situation, the crisis spread rapidly and affected all areas of the company. In addition, the company was suffering from an internal trauma: employees were very disappointed and upset about the use of child labor.

As Stora Enso entered the Pakistani market in 2012, the business risks were investigated. This work included reports about the risk of corruption, issues relating to land use and possible risk mitigation. Based on the results, Stora Enso initiated a program to address and work with the risks. However, a due diligence report that had found child labor in some of the BSP supply chains was not channeled up to group level management.

When reflecting on the situation, a Group Level Manager concludes that risk assessments from the divisions tend to get distorted when passed upwards in the organization:

“I believe that this often happens. If you have identified a problem, and you decide immediately to do something about it, the problem tends to be regarded as less important, and more under control, than it actually is. And for every level of reporting upwards the problem appears to get smaller and smaller. It is great to have a divisionalized structure and to give responsibility to those who are close to the problem, but it is crucial that there is a system in place to ensure that a correct picture is communicated all the way up to the top. In this case, people probably only verified what they received from below. And at top executive level, we did not take appropriate action, because we did not fully understand the problem. It wasn't that we were doing nothing, but we did not grasp the problem. Though we should have understood the true scale of the problem.”

It soon became obvious to top management that the organization was not equipped to handle this type of crisis. There were too many issues which they had not faced before. The response from stakeholders was immediate and very negative. The state-owned pension fund, Sjunde AP-fonden, decided to withdraw their money and had Stora Enso black-listed. The stated motivation was harsh and to the point: Stora Enso's inability to handle the situation. Other ethical funds followed suit.

In hindsight, high-level managers acknowledge that, in spite of all the good work and good intentions, it was hard to grasp the size and complexity of the problem, how profound and pervasive it would be, and how difficult it would be to manage and control. Besides down-playing the problems and painting a far too rosy picture, the insufficient actions was taken. A Group Level Manager states:

“We did not do enough. We put together a long-term plan to improve working conditions, but we did that without carrying out an in-depth investigation into the supply chains in order to find out what was really going on, and to determine whether any supply chain actually needed to be closed down.”

Hitting rock bottom: “we were the lowest of the low”

While stakeholders raged, customers left the company, employees were distressed and the media continued to scrutinize the company. Once the child labor story was out, the media followed up by bringing up old accusations and wrong-doings. The double book-keeping in Consolidated Papers, the allegations of corruption in China and Stora Enso's activities in Guangxi were scrutinized again. The initial reaction within Stora Enso to the child labor scandal in Pakistan was denial and in some places also anger towards the media. The work of business journalists was commonly referred to as a ‘media hunt’.

“Initially we didn’t stop talking about how unfairly we were being treated. But after a couple of months we realized we had to accept the situation in order to free ourselves and get to work. Maybe the media’s reporting could have been different. But they did uncover child labor in our supply chains and that was good for us. The media plays an important role in discovering wrong-doings and our role is to make up our minds about how to respond and whether we truly want our company to become an ethical and responsible business,” says Vice Executive President Legal and Country Manager Sweden.

An employee working as a communications manager at division level alludes to the same theme, but describes the situation slightly differently:

“I did not personally witness anger towards the media, but there was passivity, confusion, a feeling of being mistreated, and an inability to respond to the questions being raised.”

Her understanding was that the inability to respond came from not grasping the issue, internal information gaps and from not understanding how it should be managed. She continues, “Since we weren’t able to manage the media, the external relations eventually escalated into urgent customer and investor communications needs. Since customer communications were managed by the divisions, based on poor information, we were sending out inconsistent messages.” The communications organization was not working in a coordinated way and Stora Enso was slow to respond to customers.

Looking back, the newly appointed CEO described the situation succinctly: “In 2014 we really ended up in big trouble”. When he was travelling in China, dealing with the contested investment in Guangxi, news reached him of a wild forest fire in Västmanland in Sweden. Stora Enso was accused of being responsible for starting the fire by not following regulations on how many trees to fell and of trying to put the blame on subsidiaries.

Breaking new ground

A new CEO was appointed for Stora Enso in 2014, a person who had been with the company for a couple of years. To him and to his leadership team it was obvious they had to look into the processes, organization, policies and communications on sustainability goals and company values. Despite all the good work that had been done over the years, the company was in serious trouble and the years 2012-2014 were defined by a series of wake-up calls.

A series of actions were initiated, including taking a centralized approach to sustainability, strengthening competence globally, reaching out for support, re-building the brand, benchmarking and reinforcing cultural values. More specifically, progress was made through training programs, more elaborate reporting on sustainability, new routines and the implementation of tools and new ways to channel feedback.

A centralized approach to sustainability

An initial step was to put sustainability on the agenda for the Group Leadership Team (GLT) meetings. Not only was sustainability up for discussion, the GLT also addressed the issues in a new manner, now realizing the need for better understanding of operations and processes in distant markets, and for being prepared for future sustainability-related challenges. Improving

reporting on operations in distant markets went hand-in-hand with more in-depth discussions on challenges related to sustainable business and ethical behavior.

Referring to the child labor incident, the new CEO, emphasizes the importance of responsible behavior throughout the company:

“If something that happens in a remote subsidiary could affect Stora Enso to this extent, then we need to take measures to control our business better.”

And commenting on the work already underway, he assured all stakeholders that the importance of responsible leadership was now fully understood by the GLT.

In 2016, a Sustainability and Ethics Committee was established to enable the Board to closely monitor and guide sustainability-related actions within the company. The Committee consisted of two to four independent members, nominated annually by the Board and having no prior affiliation with Stora Enso. At least one of them was expected to have significant prior knowledge and experience in handling sustainability and ethics matters.

Strengthening competence globally

Another important step was to create a unit within the central organization to lead the sustainability work and to complement the sustainability work in the divisions. Recent experiences, for instance with child labor, clearly demonstrated a downside of having a fully decentralized organization. Without addressing sustainability issues at corporate level, the risks of misconduct, or the non-reporting of misconduct, were far too high. Either way, the reputation of the company could be severely damaged.

To get a better grip on the sustainability issues at corporate level, an Executive Vice President of Sustainability (EVPS) was recruited. The new EVPS also became a member of Stora Enso’s Group Leadership Team. The new head was to manage and coordinate all the processes and networks concerning sustainability issues throughout the company. The operational responsibility remained at divisional level, but this was strengthened with a team working at corporate level. The primary task of the corporate team would be to manage different areas of sustainability that experts looked into. A wider network of sustainability experts was formed, representing areas such as leadership as a part of HR, business ethics as a part of legal, and responsible sourcing as a part of sourcing. Their different perspectives contributed to the sustainability strategy, held together by the new EVP Sustainability.

Once the decision was made to strengthen the corporate sustainability function, the corporate unit Legal served as a good example for how to organize the work. Legal consisted of four sub-groups: Governance, Legal, Ethics and Compliance, and Intellectual Property. Ethics and Compliance was a small group but the manager of this group took part in all sustainability networks and was given a place on the Business Ethics committee. The Head of Legal explains:

“Our unit became a role model when the issues became more centralized. We had a supplier code of conduct and we also had a sourcing manager who could take care of the implementation. The energy within Stora Enso for addressing sustainability issues was suddenly high. The whole company mobilized around an ambition to make a difference.”

Re-building the brand

In the aftermath of the most intense media crisis and in response to the damaged public image of Stora Enso, the company conducted a survey to learn about journalists', investors' and employees' views of Stora Enso. According to the survey Stora Enso was perceived as:

- “Faceless”, lacking a personality or a clear standing
- Being passive rather than proactive
- Being slow to communicate in response to events
- Reporting rather than communicating
- Introvert and complex

Based on this feedback, the group leadership team took several actions. One was to communicate the company's overall purpose by clarifying the core values of the business. Sustainability was incorporated into all aspects of brand communication. The purpose and values were stated as follows:

- Purpose: Do good for people and the planet. Replace fossil-based materials with renewable solutions.
- Values: Lead. Do what's right.
- New Tagline: The renewable materials company.
- Strategy: Transformation into a renewable materials growth company.
- Brand promise: We increase customers' competitiveness by meeting the world's demand for renewable material solutions.
- Purpose-driven communication: Everything that's made with fossil-based materials today can be made from a tree tomorrow.

Actions were taken to reposition the company, rebuild its reputation and implement the core values. These included leadership training, new reporting, extensive external communication of the company story and changing the company culture by engaging employees in strategic dialogues, development of action-plans and communications.

Actions taken to restore reputation and implement sustainability

Improved reporting

- Increasing transparency. A new reporting framework combined with a more regular reporting
- Increasing internal trust and transparency (measured on four indices in the annual employee survey: leadership index, team efficiency index, engagement index and sustainability index)

External communication

- Driving 'one company' approach: ensuring Stora Enso is seen as one company through coherent messaging and visual identity.
- Making use of third parties to share the Stora Enso sustainability story. By participating in seminars and public debates (e.g. at Almedalen), influential politicians picked up the message about moving from oil to bio-economy, and this was then repeated in other news media.
- Targeting investors with newsletters, reports and stories about the transformation.
- Targeting journalists with the corporate vision and mission and the story about 'the renewable materials company'. Broad coverage in business magazines and daily newspapers, nation-wide and local. In 2016, Stora Enso's communications department is ranked #1 by Swedish journalists (800+ Swedish journalists participating in the largest nationwide survey).
- Quality improvements in the annual reporting: best annual report in Finland 2016 and in the top six globally in the report Watch Ranking (of 1600 companies from 65 countries).
- Targeting ranking institutions: acknowledged as a forerunner (no 2) in sustainable value creation by Inter Business. Other examples were the Bio-based Brand of the Year Award at World Bio Markets 2016.

Changing culture and upgrading internal communication

- Embedding a new culture; involving employees in strategy meetings, development of action plans (improving safety culture) campaigns ('Mind the step') and videos sending corporate messages.
- Setting up new channels for internal communication and feedback: group leadership blogs, open monthly calls to the CEO with more than 1000 phone lines connected at every call, summaries in four languages on the intranet, regular online surveys etc.

Education and training

- Human rights education and training for employees worldwide.
- Leadership training including more than 500 spokespersons who could communicate mission, vision and values pro-actively, openly and quickly.
- Workshops on ethical dilemmas.

Group level management was in the driving seat, communicating the corporate message and enforcing the vision by making clear statements. Executive Vice President Communication, Ulrika Lilja, appointed in the midst of the Pakistan crisis, explains:

”Communication needs to be clear, transparent, consistent and steadily repeated.”

The consistent use of public platforms, third parties and clear messages communicated to journalists seemingly paid off, helping to turn a company with a damaged reputation into an award-winning industry leader, thereby restoring the public perception of Stora Enso as a sustainable and responsible business.

Internally, the company worked with its culture, enforcing values identified in the overall purpose and addressing safety issues. Through a variety of training programs and campaigns, management

engaged with and involved employees. Since the aim was to build one company, there were also efforts to connect people on four continents and to give them insight into the thinking and reasoning of the Group Leadership Team (GLT). By letting employees follow the Group Leadership Team's debates about current issues, an openness and dialogue were encouraged.

Reaching out for support

Stora Enso would find external allies and collaborators in its work for sustainable solutions. With its history of doing many good things on sustainability, and its experience of working on different sustainability issues, Stora Enso had initiated a series of collaborative processes. The Head of Sustainability Communications explains:

“Some NGOs, such as Save the Children, were very constructive and provided us with guidance. They took the role of ‘critical friends’, combining supportive advice with independent opinions regarding our conduct. They also advised us on how to improve. This was a fruitful but challenging dialogue.”

Stora Enso also trained more than 600 Stora Enso employees on children's rights and business principles together with Save the Children.

Together with the Danish Institute of Human Rights, a group-wide Human Rights Assessment was conducted in 2014, which was followed up with action plans. The assessment covered 93 units in 22 countries. In addition, a partnership with the International Labor Organization (ILO) was set up to promote decent work and to combat child labor in the supply chain of BSP in Pakistan.

Bench-marking and reinforcing values

Stora Enso has been a forerunner in Sweden in many areas. For instance, the company was first to introduce a competition law compliance program, and among the first to apply the UK Bribery Act. Over the years the company has found other companies to benchmark their work against, for instance Telia with regard to anti-corruption and compliance, and Nestlé, IKEA and H&M with regard to supply chains and strong central sustainability functions.

While continuous processes are the drivers of sustainability work, a value-based culture is a necessary foundation. A group level manager explains;

“New challenges come in a steady stream and to deal with upcoming opportunities and problems the company needs to have the right culture in place to direct policies and actions.”

As for guiding values, Stora Enso has high aspirations. The overall purpose of the company is stated as ‘Do good for people and the planet. Replace fossil-based materials with renewable solutions’. Acknowledging that this purpose may seem grandiose, the management believe that a stretch is needed. “It can be difficult to grasp at first but our impression is that people are really starting to understand what it means.” In addition, the company has put forward values such as ‘Lead’ and ‘Do what's right’. “Compared to the purpose, these values have been perceived by some as easier to apply in their daily work.” Drawing on the leadership training, successful implementation is seen as practicing value-driven leadership.

The corporate values are spread through the organization via a number of activities. One important example is leadership training programs in which participants act as change agents in change projects within the organization. Through these training programs the company has established a critical mass of change agents to drive cultural change. There are various discussion forums to discuss and implement the learnings, and there are workshops on ethical dilemmas. So far more than 500 'spokespersons' have been educated to spread the message of ethical behavior and to teach different tools. Still, there is a lot of work to be done. To implement new programs, adequate procedures must be in place. A manager takes the implementation of the Code of Conduct as an example:

“We used to think that we were pretty good at implementing the Code of Conduct. A lot of people took part in the training, which covered not only business ethics but policies on environment, human rights and other things. However, an internal audit showed another picture. It turned out that there were many gaps in employees' knowledge and practice.”

“A code of conduct is no guarantee of ethical behavior. All companies have a code of conduct today. VW had one and FIFA had one. Each and every individual has to take personal responsibility. The organization can initiate processes and develop tools that help people do the right thing. A code of conduct does not prevent misconduct and misbehavior in an organization, but it can help the organization to identify unethical behavior and take appropriate measures. It is essential to have a culture in which people feel that they can speak up. It is important to get different perspectives and therefore diversity in the workforce is also important. All this goes back to the values.”

To address knowledge gaps and enforce new practices, the company introduced a tool for self-assessment at group level. The so-called “Test” enables benchmarking against other groups/units and ownership of the Test lies within the divisions.

Reclaiming the lead in sustainable business

The transformation of the company culture and the repositioning of Stora Enso as an ethical and responsible company are clearly linked to the history of the company as a forerunner in sustainability. A quote that captures the essence of the change is: “Everything that's made with fossil-based materials today can be made from a tree tomorrow”. With these words and a film clip entitled “Have you ever thought about what a tree can do?” the history of the company is linked to the future of the company. Today, in 2018, Stora Enso is claiming a global leadership position as a provider of eco-friendly bio-based products and services. Or, as the management puts it, “Stora Enso is THE renewable materials company.” By linking this message to transparency, external measurements of walking the talk (rankings, awards and research reports) and internal tools supporting ethical behavior, Stora Enso demonstrates a clear ambition to stay responsible.

The company continues to survey employees to see sustainability is being perceived and implemented in daily operations. From the results of “Your voice”, management concludes that the company is going in the right direction. While employees today say that they are comfortable with the future direction of the company, and express their trust in Group Leadership, an important lesson from the turmoil in 2014 is that it is impossible to prevent or forestall mistakes and misconduct in an organization. Another lesson from this experience is that next time wrongdoing is discovered – and there will be a next time since Stora Enso is a global company with

business all over the world - the management team could act more proactively towards both employees and external stakeholders.

CEO of Stora Enso concludes:

“As a company Stora Enso has prepared itself to act faster and it is better equipped to address misconduct and manage problems. It is about attitude, trust and an ongoing, never-ending process.”

Appendix

Themes and questions for discussion

This case describes how a grounded, long-term strategy and work with sustainability issues are integrated into a company, from top executives to divisions. The strategy was formulated and in use by the late 1960s and early 1970s when the company was viewed as a leader in the sustainable development of materials and generally as a leader in environmental sustainability work. Since that period, the company has been regarded (and regards itself) as the leading company in the world on environmental issues. However, repeated instances of misconduct and ethical failures have challenged this public image (and its self-image). Disruptions and crises have arisen that involve business ethics and problems such as charges related to unfair competition, cartels, child labor, and other corrupt behavior.

A fundamental principle in the discussion of responsible and ethical business is that companies are built on shared values that are based in a common understanding of right and wrong. Another important principle is that systematic and well-grounded work is the basis of responsible and ethical business behavior. Lastly, a holistic view of business risks at the group level is crucial for ensuring coordinated action. At Stora Enso, by the consistency and diligence of the work it was clear that management embraced and acted upon these principles. Nevertheless, the sustainability journey described in this case involves many challenges of various kinds. To promote reflection, discussions and learning, the next paragraphs develop central themes and raise questions related to the interplay between sustainable behavior, innovation, and the responsible leadership role.

Different perspectives and different information

This case shows how top management's focus and therefore management's decision-making, depend on the content and quality of internal information flows and on an adequate understanding of how differences in business cultures are perceived in daily work. How can a company ensure that the executive management team and the board of directors have sufficient and holistic information about differences in local business practices, cultures, and risks?

The case also shows that managers at different hierarchical levels in a company may encounter the same problems. For example, when managers lack correct information about problems, those problems may quickly spin out of control. What are the necessary processes that allow management to predict and manage problems in ways that help avoid poor decision-making?

The management team in the case, at the group level, seemed to favor brand-building activities and external communications. How does this preference affect the rest of the company? Are people in the divisions reluctant to integrate corporate messages into their own activities? And if so, why?

A related issue concerns the disparity in the interpretation of responsibility. In different areas of the company, responsibility does not seem to have the same meaning. Is this necessarily a problem if differences reflect variations in the business-units' focus?

Crisis, identity, and culture

This case depicts a repetitive cycle in which crises interrupt daily work. These crises provoke stages of crisis management, periods of improvement, and even rewards and recognition. Yet new crises arise. The inevitable question is the following: Are crises a prerequisite for real change?

When a new crisis arises in an organization, the media is often quick to review previous misconduct and failures. This media attention exacerbates the crisis and makes its management all the more challenging. The causes of the crises - at least as far as child labor in Pakistan - were well known to parts of the company. Nevertheless, the company's initial reactions were defensive with blame placed on the media. How can this behavior be explained? What is the linkage to the company's own business culture?

The stakeholders and the general public's response to the child labor crisis surprised company executives, especially those in group level management. Why were they surprised? Could the crisis have been prevented or dealt with differently?

Stora Enso's public image during the late 1990s was positively enhanced by its environmental work. Yet when the child labor crisis arose, that image was severely challenged. To what extent can a company change its business behavior through adjustment of its values and brand-building activities? When is a crisis so severe that a new identity is needed?

Avoiding crises through alertness

This case exemplifies the situation for a company when a major crisis arises. The case also highlights the perceptions of important stakeholders with regard to the company's actions and non-actions in response to the crisis. The question becomes: Can a company help avoid crises by always being alert to potential problems?

Stora Enso's public image during the late 1990s was positively enhanced by its environmental work. Yet when the child labor crisis arose, that image was severely challenged. How does a company maintain its good reputation that it has achieved after years of responsible and ethical behavior? Which improvements can a company undertake that can recover and strengthen its reputation following a major crisis? How does a company in such a situation maintain a high level of commitment to responsible and ethical behavior? Are awards and recognition even, at times, counter-productive?

The role of leadership

A dilemma exists for the management of long-term, consistent sustainable business activities in ordinary work processes when resources must be dedicated to handling extraordinary challenges and crises. How can leadership be organized to manage crises without losing their focus on the long-term commitments to sustainability?

Discussion of leadership raises the issue of the need to maintain momentum. A crisis tends to focus leaders' attention on a specific issue. When the crisis has passed, they naturally direct their attention elsewhere. How then, do leaders maintain co-workers' alertness so that they are better prepared for the next and inevitable crisis? Although crises can be catalysts for change, the disruption that crises cause can result in highly volatile working conditions and a stressful business environment. How can leaders achieve the right balance between the need for change and the chaos that change often creates?

Even when a company is a champion in one area of sustainability, this achievement is not necessarily sufficient for dealing with changing norms and practices in other areas and for meeting stakeholders' broader expectations. Therefore, how can a company embrace and implement a holistic view of sustainable business?