



CORPORATE RESPONSIBILITY INDEX

Executive Summary

Foreword

Just over six months have passed since the publication of the results of the inaugural Corporate Responsibility Index in Australia. In normal circumstances, the Index operates on an annual cycle. However, in order to secure additional value from the process, we have synchronised the reporting period with that of other participating countries, such as the United Kingdom and Japan. Companies are now able to make a reliable assessment of their relative performance when compared to a universe of international companies both within their sector and more generally. Unfortunately, the ability to develop a truly international instrument has meant a one-off doubling of effort by Australian companies that have chosen to participate in both rounds of the Index.

In addition to this, companies have been presented with a slightly revamped questionnaire. While many of the changes are quite subtle, their overall, intended effect has been to 'raise the bar'. This has been achieved in two ways. First, a number of generic questions have been expanded to require more specific and detailed evidence of actual practice. Second, the scoring framework has been altered in order to give much greater weight to performance and impact. That is, the Index is now more attuned to the actions of companies – and not just their strategic planning prowess. Incremental changes of this kind can be expected as the Corporate Responsibility Index evolves over time.

It is against this background of increased demands that twenty-seven Australian companies have volunteered to complete the second Corporate Responsibility Index in Australia. A core group of twenty companies has participated in the Australian Index on two occasions. Seven new companies have completed the Index for the first time, with six taking a break in year two. Once again, we would have preferred it if a larger number of Australian companies had completed the Index this year. However, while many more indicated an interest in doing so, their lack of internal resources (and the searching nature of the questionnaire) meant that they were unable to do so. We hope that as the benefits of participation become more evident, so boards of directors and senior managers will ensure that they invest in growing the internal capacity needed to measure and report on performance in the increasingly important area of corporate responsibility.

The decision to align the Australian Index with that of the United Kingdom has already delivered one outstanding result. Westpac has topped the scores in both Australia and the United Kingdom, demonstrating that Australian companies can compete in this area of activity with the world's best – including those that have been driven to perform by a challenging regulatory environment. Australian companies, like Westpac, have matched or exceeded mandated standards – and have done so as a matter of choice rather than compliance. Other companies, like Foster's and Insurance Australia Group, have shown really significant improvement – showing what can be achieved, even in the short-term, when building from a solid base.

But perhaps the greatest accolade should be reserved for those companies that have stuck with the Corporate Responsibility Index process – even though they are not (yet) at the top end of the table. It's far easier to participate when general acclaim is the most likely result than to do so knowing that the results will reveal a daunting list of further challenges. The companies that persist demonstrate gritty leadership of a kind that will hopefully inspire others to embrace this measurement as the first step to improving performance.

The Corporate Responsibility Index is a tool developed by Business in the Community (UK). St James Ethics Centre serves as 'trustee' for the process in Australia. As such, it plays no role in the assessment of companies' performance. Indeed, our modest role is eclipsed by those of our partners: *The Sydney Morning Herald*, *The Age*, Ernst & Young and the Business Leaders Forum on Sustainable Development with the advisory committee chaired by Molly Harriss Olson and Phillip Toyne.

We look forward to further development of the Corporate Responsibility Index in Australia in the year ahead as measurement of performance becomes expected rather than merely accepted.

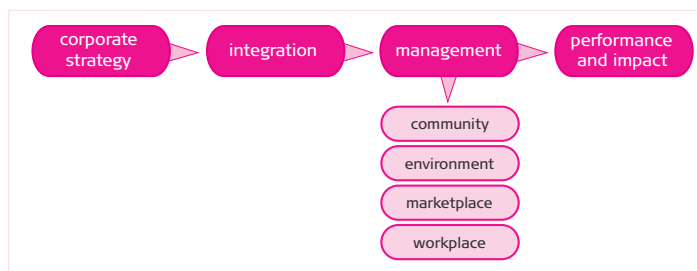
Dr Simon Longstaff
Executive Director, St James Ethics Centre



The Corporate Responsibility Index, developed by Business in the Community, is an initiative of St James Ethics Centre, *The Sydney Morning Herald* and *The Age*, proudly supported by Ernst & Young. Business in the Community have generously donated the Index under a licence agreement to St James Ethics Centre. Project catalyst: Pilotlight Australia

The Index Model

The Corporate Responsibility Index was developed to help improve corporate responsibility by providing a systematic process that compares companies' management processes and performance with those of others in their sector. It provides a benchmark for companies which are committed to managing, measuring and reporting their impact on society. The Index is based on a framework of four components shown in the following model:



The **Corporate Strategy** section looks at how a business' activities influence its company values, how these tie into strategy and how they are addressed through risk management, development of policies and responsibilities held at a senior level in the company.

The **Integration** section looks at how companies organise, manage and integrate corporate responsibility throughout the operations. Is it part and parcel of the company culture? Is it integrated into the strategic decision-making processes of the company and linked through into internal governance and risk management systems?

The integration is assessed through the **Management** section where we review processes for managing different stakeholder relationships. This section looks at what the key issues are for the business in the **Community, Environment, Marketplace** and **Workplace**, the objectives and targets set to manage these issues and how it communicates, implements and monitors its policies, objectives and targets.

Community relates to the interface between business and society that can be both positively or negatively affected by a project, product or investment on a local or global level.

Environment is the world's ecosystems and natural resources and is affected directly and indirectly by a company's operation, products and services. Being responsible means safeguarding both the systems and resources for future generations.

Responsibility in the **Workplace** is the creation of a working environment where personal and employment rights are upheld.

Responsibility in the **Marketplace** is maintaining the highest standards of business practice when developing, purchasing, selling and marketing products and services.

The **Performance and Impact** section looks at companies' performance across a range of social and environmental impact areas. Companies were asked to complete a total of six impact areas consisting of:

- > Two Core Environmental Impact Areas: Climate Change as an overall KPI, Climate Change as Individual KPIs (Energy, Transport and Process Emissions) and Waste and Resource Management.
- > Two Core Social Impact Areas drawn from: Product Safety, Occupational Health and Safety (OHS), Labour Rights in the Supply Chain, Workplace Diversity and Community Investment
- > Two Self-Selected Impact Areas: companies were asked to complete two additional relevant Impacts, one environmental and one social.

Survey

Companies participated by completing an online survey, supplemented by a series of guidance notes. As this is a self-assessment process, each submission was required to be signed off by the company Chief Executive or a member of the Board.

Scoring

The score weighting was changed for the 2004 Index. Corporate Strategy is now 10%, Integration is 22.5%, Management Practice is 22.5% and Performance and Impact is 35%, with a further mark of 10% being awarded for the level of assurance and disclosure provided by participants. In addition, each of the four components within the management section was equally weighted, and each of the social and environmental impacts was also equally weighted (six in total).

Feedback

Participants receive detailed confidential feedback on their performance compared with their sector and the universe of participants. This gap analysis helps companies to identify strengths and weaknesses, allowing them to take stock of progress and also helps them focus where improvements can be best achieved depending on a company's impacts and strategic business needs. Feedback has provided companies with a useful tool to present information at board level.

Participants

The 2004 Australian Corporate Responsibility Index was launched on 24 September 2004 with Australia's top 250 companies (as listed in *BRW*) and Business Council of Australia members invited to participate.

The Index was completed by twenty-seven companies from the following sectors*:

Sector	Participants
Consumer Discretionary	3
Consumer Staples	5
Energy	1
Financials	5
Healthcare	1
Industrials	1
Information Technology	1
Materials	5
Professional Services	1
Telecommunication Services	2
Utilities	2

* as defined by the Global Industry Classification Standard – as participation in the Index increases we will be able to give more specific industry comparisons looking at the 'Industry Group' classification rather than the highest level 'Sector' classification

An Overview of the Results

The second Corporate Responsibility Index achieved a higher average overall score than the inaugural Index by 5%, raising it to 82%, despite efforts to make the Index more challenging.

There are two main reasons for this increase. Firstly there is a different pool of candidates, six did not continue with the process this time and we have seven new participants who achieved a 10% higher overall average score than their predecessors.

Secondly, previous participants were more familiar with the Index and used the experience of completing the inaugural Index to improve the measurement, reporting and monitoring of corporate responsibility practices within their organisations.

Changes between the inaugural Index and the 2004 Index

The score weighting was decreased from 22.5% to 10% in Corporate Strategy (the strongest scoring section previously) and increased from 22.5% to 35% in the Performance and Impact Areas (one of the lower scoring areas previously).

In addition 'the bar' has been raised on some questions, requiring an increased depth and detail in the answers and a greater degree of public reporting. Also the choice of Impacts in the Performance and Impact section was less flexible with participants having to choose three Environmental and three Social Impacts.

Corporate Strategy

Corporate Strategy was again the highest scoring section with an overall average of 91% reflecting the fact that the participants place great importance on responsible business practices at the highest level – corporate responsibility is intrinsic in their values, leadership, risk management and policies and they are communicating this externally and internally.

The highest performing question within this section was on corporate values at 100% demonstrating that all participants have an overall mission and values statement which references their commitment to one or more aspects of corporate responsibility.

The lowest scoring question at 80% was on leadership, a question made more challenging by requesting specific detail on the responsibilities at board level and in particular required public reporting of these roles.

Having policies that reflect key corporate responsibility areas and the public reporting of these policies also remained a weaker area, with the human rights policy the lowest scoring component of the question at 84%.

Integration

Embedding high-level corporate responsibility values and commitments into mainstream business practice remains challenging, demonstrated in the 9% gap between Corporate Strategy and Integration which scored 82%. All participant responses improved in this section with the exception of two questions on incorporating corporate responsibility as part of the strategic decision-making process and reporting.

Including corporate responsibility when making strategic decisions such as new business partners, new investments and downsizing remained challenging for business and the score remained the same as the inaugural Index at 67%.

The corporate responsibility reporting question was made more difficult by requesting information on a more specific range of elements contained within the report, ie: governance and management structure, monitoring and audit processes and the type of third party verification. It also requested more detail on the scope of the report, ie: key issues, key performance data, targets, third party independent statement and disclosure. This resulted in a score of 77%. The three weakest components of the question were reporting on the process used to identify and understand key social risks and opportunities at 74% and using third party verification at

52% with those adopting approaches such as the Assurance Standard AA1000 scoring only 33%.

Management

The results for the management of key issues relating to Community, Environment, Marketplace and Workplace improved across the board from the inaugural Index. The most improved area was Marketplace Management and within this the highest scoring question at 93% was management of social issues in the supply chain although only selected by six of the twenty-seven participants. Interestingly the compulsory question on managing environmental issues in the supply chain remained the lowest scoring component at 65%.

Workplace continues to be the strongest performing area with an overall score of 88% followed closely by Marketplace (86%) Environment (85%) and finally Community (83%).

Performance and Impact

Participants achieved an average score of 79% for this section despite the changes such as greater differentiation between management and performance targets.

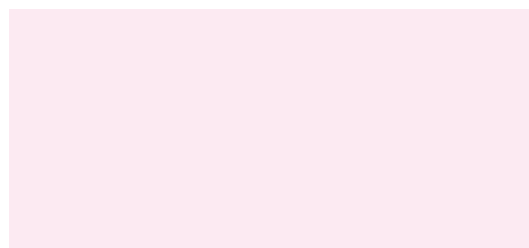
In addition the less flexible choice of three Environmental and three Social Impacts was introduced leading to a lesser number of self-selected social impacts chosen compared to the inaugural Index. However as you can see from the list overleaf there is still a good breadth of impacts and the importance of workplace related social impacts continues to be strong representing over one third of the impacts chosen.

Overall, participants are better at managing their social impacts, scoring an overall average of 83% compared with their environmental impacts at 75%.

Most participants chose management of their Climate Change Impact as an overall Key Performance Indicator (KPI) and outperformed those that split their Climate Change Impact into individual KPIs covering Energy, Transport and Process Emissions. The compulsory Waste and Resource Management Impact remains a challenge with a 70% score.

In relation to the social performance impact area, participants must answer two of four core impact areas and self-select a third area. The most popular social impact chosen was again OHS with twenty-two of the twenty-seven participants choosing it and scoring 79%. Next was Community Investment selected by sixteen of the twenty-seven participants scoring 86% just behind the highest scoring Product Safety impact at 89% which ten of the twenty-seven participants chose.

Overall Average Index Scores



Labour Rights in the supply chain was the least popular social impact chosen by only three of the twenty-seven companies selecting it and scoring 77%.

Additional social impacts selected by companies included:

Access to Justice
 Access to Medicines
 Alcohol Misuse
 Community Investment

Employee Development
 Energy for Life
 Affordability of Communication Services
 Financial Inclusion
 Influencing Investee Companies
 Product Stewardship
 Promoting Safety in the Community
 Responsible Products
 Work Life Balance

Validation

Ernst & Young's dedicated Environment and Sustainability Services team, operating under a formal letter of engagement with St James Ethics Centre provided validation on a *pro bono* basis.

The validation process began with the Ernst & Young team conducting a desk top examination of all submissions, ensuring that the questions had been interpreted correctly and that the substantiating evidence provided supported the answers. In some instances site visits were conducted. Where potential conflicts of interest were identified, those participants who were clients of Ernst & Young in Melbourne were validated by the Ernst & Young team in Sydney and *vice versa*.

The validation process was completed with a final close-off conference call with each participant, where any required adjustments to submissions were agreed by all parties.

2004 Australian Corporate Responsibility Index Results

Published 4 April 2005

Company	Scope	Overall Score	Corporate Strategy	Integration	Management Practice	Performance & Impact	Assurance & Disclosure
Arcor Ltd	Australia	★	★	✓	★	★	★
AMP Limited	100%	✓	✓	✓	✓	✓	✓
ANZ Bank	100%	★	★	★	★	★	★
AstraZeneca*	100%	★	★	★	★	★	✓
Australian Gas Light Company	100%	✓	★	★	✓	✓	✓
BHP Billiton*	100%	★	★	★	★	★	★
Boral Limited	100%	★	★	★	★	★	✓
BP*	100%	★	★	★	★	★	★
British American Tobacco Australia Limited	Australia	✓	★	✓	★	✓	✓
Cadbury Schweppes*	100%	★	★	★	★	★	✓
Energy Australia	100%	★	★	✓	★	✓	✓
Ford Motor Company*	100%	★	★	★	★	★	★
Foster's Group Limited	Australia	★	★	✓	★	★	★
Holden Ltd	Australia	★	★	★	★	★	★
IBM Australia Limited	Australia	★	★	★	★	★	✓
Insurance Australia Group Limited	100%	★	★	★	★	✓	★
Lion Nathan Ltd	100%	★	★	★	★	★	★
Minter Ellison Solicitors	Australia	✓	★	✓	★	✓	✓
Newmont Australia Limited	Australia	★	★	★	✓	✓	★
P&O Steam Navigation Company*	100%	✓	★	✓	✓	✓	✓
Rio Tinto*	100%	★	★	★	★	★	★
Suncorp Metway Ltd	100%	✓	★	✓	✓	✓	✓
Telstra Corporation Ltd	Australia	★	★	★	★	★	★
The BOC Group*	100%	★	★	★	★	★	★
Toyota Motor Corporation Australia Limited	Australia	★	★	★	★	★	★
Vodafone Group*	100%	★	★	★	★	★	★
Westpac Banking Corporation	100%	★	★	★	★	★	★

*SUBMITTED SURVEYS IN UK AND VALIDATED BY BUSINESS IN THE COMMUNITY ★ Gold 90%+ ★ Silver 80-89.99% ★ Bronze 75-79.99% ✓ Participated 74.99% and less

Scope: 100%: 100% operations (global or greater than 75% of global operations in Australia)

Australia: Australian operations only (global business)

St James Ethics Centre, *The Sydney Morning Herald*, *The Age* and Ernst & Young would like to congratulate the twenty-seven participating companies in the 2004 Australian Corporate Responsibility Index.

We would like to thank these companies and the members of the non-government organisation advisory group for their continuing support and guidance, which ensures the robustness and relevance of the Index.