

CORPORATE RESPONSIBILITY INDEX 2005

Executive Summary

Foreword

This report concludes the third round of the Corporate Responsibility Index (CRI) in Australia. In the time since the twenty-nine participating companies commenced this process, the debate about the extent and character of corporate responsibility has entered a new phase. First, there has been a growing recognition of the fact that the changing demands of consumers, investors and employees represent nothing more (and nothing less) than the market at work. Boards and senior managers are realising that the market is now starting to move beyond an assessment of 'tangible' qualities of goods and services to value, sometimes in equal measure, the 'intangibles' that make up brand and reputation. To rail against this development is as futile as a retailer blaming customers for preferring the 'wrong' products – conveniently stocked by their competitors.

The second development has been a growing awareness that the law only sets minimum standards and that the market should be encouraged to operate above this 'floor'. That is, once basic protections for the community are assured, business should respond to the demands of the changing market on a voluntary basis. This development in thinking has been allied to a concern that society not rely exclusively on the policy tools of regulation and surveillance to limit risk or enhance beneficial outcomes. However, if the case against government intervention is to be sustained, then it must include a clear demonstration of the fact that a viable, voluntary alternative is available and that this is being widely adopted by business.

The CRI continues to be developed with this background in mind. In the course of the past year, a pilot test of the Index has been conducted in Japan. Closer to home, a number of companies based in New Zealand are considering the option of participating in an expanded Australasian CRI. These positive developments have been driven, in part, by the fact that companies are now able to demonstrate to their peers the immediate value to be found in applying the framework of the CRI to their business operations. As Trustee for the Index in Australia, we are regularly told by participants that the CRI provides a practical tool for diagnosing areas for improvement and a useful road-map for increasing performance.

Even so, the partners responsible for developing and implementing the CRI recognise the need for a process of continuing improvement. In particular, Business in the Community (BITC) has embarked upon a substantial review program. Likely outcomes of this process include: a further consolidation of the way in which other instruments (like FTSE4Good) can share common questions and data – thus reducing costs for business; an 'entry level' principles-based diagnostic tool that will allow companies to begin the process with easier, initial steps; and further mapping of the CRI against established, international standards.

While we would have liked to see a greater increase in the nett number of participants, we are pleased with the quality of new entrants and the general direction in which the project is moving. Westpac has again topped the CRI in Australia, Toyota Australia, ANZ and BHP Billiton are closing the gap. AMP has made significant gains in performance – as have EnergyAustralia and AGL. Of particular significance has been the result achieved by Savings & Loans Credit Union – a new entrant demonstrating that you do not have to be a major corporation to participate in the CRI and succeed. One company, British American Tobacco (BAT), opted to make a global submission lodged and validated in the UK – thus altering the profile of information previously relied upon, by the CRI, when assessing BAT's Australian operations. Given that participation in the CRI is an entirely voluntary commitment, it is very pleasing to report that 100% of the Australian participants continued on from the last round.

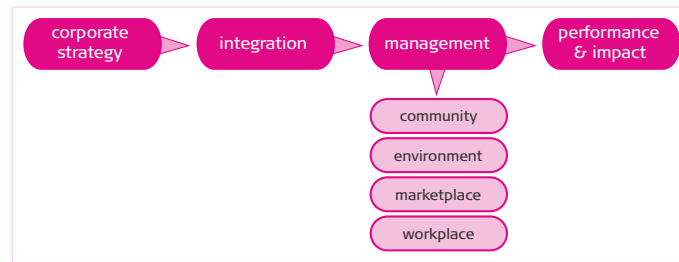
As previously noted, the role of the Trustee is essentially one of co-ordination. The larger part of the task is borne by our partners – especially Ernst & Young whose *pro bono* contribution of professional expertise is essential to the validation process that underpins the credibility of the CRI in Australia. *The Sydney Morning Herald* and *The Age* have underwritten the development of the Index and have provided a critical and supportive editorial environment for exploring the underlying issues in the larger debate and for helping to highlight some of the more important and interesting lessons to be learned from observing business in Australia. The ability to tell these stories and to share examples of emerging best practice has been greatly enhanced by our partnership with the Business Leaders' Forum on Sustainable Development. Broad issues of policy and practice are developed with the assistance of two advisory committees – one drawn from amongst participants in the CRI and the other with strong representation from non-government organisations, professional and industry groups. Finally this mix of contributions is linked to the authors of the CRI, our partners in the UK, BITC. All are to be thanked for their generous contribution to this project.

Dr Simon Longstaff
Executive Director, St James Ethics Centre



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 & 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 or as individual KPIs (Energy, Transport and Process Emissions) and Waste and Resource Management.
- > Two Core Social Impact Areas drawn from: Product Health & Safety, Occupational Health & Safety (OH&S), 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

Company scores are generated automatically by the BITC online benchmarking system. The sections of the Index are weighted as follows: Corporate Strategy (10%); Integration (22.5%); Management Practice (22.5%); Performance & Impact (35%); Assurance & Disclosure (10%). In addition, the four components within the management section are equally weighted, and the social and environmental impacts are 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.

Validation

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

The validation team assessed all company submissions on a sample basis to check responses were supported by appropriate evidence and that questions were interpreted consistently by participants. As part of this process, companies were asked to provide further clarifications or supporting evidence as required. Any outstanding queries were followed-up on a one-to-one basis by email, phone call and/or visits by the validation team. Site visits were carried out for a sample of participants to check company understanding and interpretation of the Index.

Those participants who were clients of Ernst & Young's Environment and Sustainability Services practice 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.

Further information on the Corporate Responsibility Index model and validation process are available on our website: www.corporate-responsibility.com.au

An Overview of the Results

Results of the third Corporate Responsibility Index in Australia highlight that participating companies are improving the integration of corporate responsibility principles throughout their business operations, and that this is translating into improvements in management practice and performance.

Participating companies in the 2005 Index achieved an overall average score of 85%, a 3% increase on the 2004 average of 82%. Analysis reveals that the changing pool of candidates was not a contributing factor to the change in overall scores, thus this increase may be attributed to the averaged performance improvement of the continuing companies.

Participants

The 2005 Australian Corporate Responsibility Index was launched on 9 September 2005. While Australia's top 250 companies (as listed in *BRW*) and Business Council of Australia members were formally invited to participate, participation in the Index is open to all companies.

In 2005, twenty-nine companies committed in Australia to undertaking this voluntary assessment of their core business practices, including fifteen ASX100 and eight global companies. Worthy of recognition is the fact that all Australian participating companies from 2004 remained engaged in the 2005 process. We also welcomed four new companies and one returning company from the inaugural Index. Three global participants elected not to participate in 2005.

Sector Analysis

The most engaged sectors in the Index were Consumer Staples (7), Financial Services (6) and Materials (5). Other participating sectors included Consumer Discretionary (3), Energy (1), Healthcare (1), IT (2), Professional Services (1), Telecommunications (1) and Utilities (2).

The top performing sectors were: Healthcare, Materials and Consumer Discretionary.

Corporate Strategy

All companies performed strongly in the area of Corporate Strategy with an average score of 95% indicating the successful integration of corporate responsibility (CR) principles into company values, leadership, risk management and policies. The greatest improvements were in delegating leadership responsibility.

- > **Leadership:** 97% of companies have now designated responsibilities for CR issues at the executive/board level, although 30% are still not reporting this publicly. 80% have now assigned leadership responsibility for human rights issues.
- > **Risk Management:** Encouragingly, all companies involve senior managers in building CR issues into risk management and have processes in place to review these issues at least annually at board level. Still, one in five companies does not involve key external stakeholders in this process.

Integration

Participating companies demonstrated improvement in translating CR principles and strategy into day-to-day business operations. The greatest improvement was in incorporating CR issues into strategic decision-making with results increasing from 67% to 84%. Other areas of notable improvement were in relation to linkage of CR issues to remuneration and bonus systems as well as incorporation in training and development. Public reporting of CR issues remains the least integrated element.

- > **CR Principles:** Almost all companies have provided training to staff in their CR principles. However, 20% have not asked staff if they believe the company lives up to these principles or have taken steps to address areas of concern.
- > **Performance Management:** While all companies include CR issues in the appraisals of functional staff, only half include these in the appraisals of the executive team/board.
- > **Strategic Decision-Making:** Over 80% of companies can now demonstrate how they consider CR issues in decisions regarding downsizing/restructuring, researching new products/services and in considering new business partners.

- > **Stakeholder Engagement:** 83% of companies fully engaged stakeholders in the identification of risks/opportunities and development of policies, across the key management areas; only 62% engaged stakeholders in reporting.
- > **Reporting:** Reports are most likely to address thoroughly environmental and OH&S issues while marketplace issues are the least well reported.

Management

The strongest performing management area was again relating to Workplace issues (90%), closely followed by Marketplace issues. The most significant improvements to management practice were made in the areas of Community and Marketplace.

- > **General:** Almost all companies had a formal process in place to identify key issues across the four management areas.
- > **Community:** All participants regularly review and update their community strategy, but only half produce a third party independent statement indicating the effectiveness of implementation.
- > **Environment:** 90% of participants have an EMS in place which covers >75% of the business. 24% had their EMS externally certified to ISO14001 (predominantly in high-impact sectors).
- > **Marketplace:** Top performance was recorded in the social stewardship of products and services as well as social supply chain management, whilst the most popular selection was responsible selling (13).
- > **Workplace:** Almost all companies regularly review and update their workplace objectives and targets but only 40% put these in the public domain.

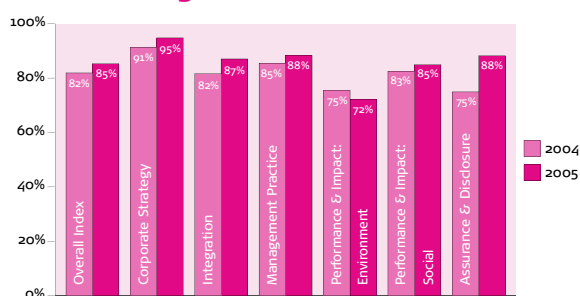
Performance & Impact

Participating companies scored significantly better in relation to performance and impact of social issues (85%) than environmental issues (72%). A key challenge in this area remains the ability to demonstrate performance improvement over time across a range of indicators and the reliability of data utilised.

The self-selected environmental issue identified by over one third of participants was Water Consumption. Other key environmental areas selected include: Biodiversity, Unplanned Environmental Incidents, Indirect Impact and Emissions to Air. The three companies addressing Biodiversity issues achieved the highest score with 84%.

The most popular social impacts chosen were OH&S (22), Community Investment (18) and Workplace Diversity (15). Product Health & Safety achieved the highest score at 99% although only chosen by 40% of participants. Additional social impacts selected by companies related predominantly to community issues including accessibility to products and services, and employees in the workplace.

Overall Average Index Scores



"We've used the CRI to help us track ANZ's performance, particularly around our key focus areas of our customers, employees and the community. By participating and sharing our assessment, we also hope more companies will be encouraged to do the same."

John McFarlane, Chief Executive Officer
ANZ Banking Group

"The rigour and integrity of the CRI review process provides an invaluable tool in helping business drive its social responsibility programs and benchmarking against best practice in corporate social responsibility."

Christine Charles, Regional Director
Environment & Social Responsibility
Newmont Australia & New Zealand

2005 Australian Corporate Responsibility Index Results

Published 15 May 2006

Company	Scope	Overall Score	Corporate Strategy	Integration	Management Practice	Performance & Impact: Environment	Performance & Impact: Social	Assurance & Disclosure
Australian submissions:								
AMCOR	Australia	✓	★	✓	✓	✓	★	★
AMP Limited	100%	☆	★	★	☆	✓	☆	☆
ANZ Banking Group Limited	100%	★	★	★	★	☆	★	★
Australian Gas Light Company	100%	★	★	★	★	★	★	✓
AWB Limited	100%	✓	✓	✓	✓	✓	✓	✓
BHP Billiton†	100%	★	★	★	★	★	★	★
Boral Limited	100%	★	★	★	★	★	★	★
Caltex Australia Limited	100%	☆	★	★	★	✓	☆	★
EnergyAustralia	100%	★	★	★	★	✓	★	★
Foster's Group Limited	Australia	★	★	★	★	☆	★	★
Hewlett-Packard Australia (HP)	Australia	☆	★	★	★	✓	✓	★
GM Holden Ltd	Australia	★	★	☆	★	✓	★	★
IBM Australia	Australia	★	★	★	★	★	★	★
Insurance Australia Group Ltd	100%	★	★	★	★	✓	☆	✓
Lion Nathan Limited	100%	★	★	★	★	★	★	★
Minter Ellison Lawyers	Australia	✓	★	✓	★	✓	★	★
Newmont Australia Limited	Australia	★	★	★	★	✓	✓	★
Savings & Loans Credit Union (SA) Ltd	100%	★	★	★	★	✓	★	✓
Suncorp Group	100%	✓	★	✓	✓	✓	✓	★
Telstra Corporation Limited	Australia	★	★	★	★	✓	★	★
Toyota Australia	Australia	★	★	★	★	★	★	★
Westpac Banking Corporation	100%	★	★	★	★	★	★	★
Global submissions*:								
AstraZeneca	100%	★	★	★	★	★	★	☆
BHP Billiton†	100%	★	★	★	★	★	★	★
The BOC Group	100%	★	★	★	★	★	★	★
British American Tobacco	100%	★	★	★	★	★	★	★
Cadbury Schweppes	100%	★	★	★	★	★	★	★
Ford Motor Company	100%	★	★	★	★	☆	★	★
Rio Tinto	100%	★	★	★	★	★	★	★
Unilever	100%	★	★	★	★	★	★	★

★ 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)

* Global companies who submit to the CRI in the UK, and have operations in Australia, are eligible to report also their results in the Australian CRI. These companies have submitted surveys in the UK which were validated by Business in the Community.

† BHP Billiton is included in both the Australian and Global submission tables because while their submission was validated in the UK, it was completed primarily in Australia

"By highlighting successes and gaps in our sustainability effort, the CRI helps Foster's maintain momentum and drive ongoing improvements in this challenging and important field."

John Murphy, MD Foster's Australia & Chair Foster's Sustainability Taskforce
Foster's Group

"Companies wanting to be part of the CRI need to be able to commit time and resources to follow it through, but the benefits and rewards far outweigh the effort. It really is a great way to measure the business performance of your company."

Greg Connor, Chief Executive Officer
Savings & Loans Credit Union

St James Ethics Centre, *The Sydney Morning Herald*, *The Age* and Ernst & Young would like to congratulate the twenty-nine participating companies in the 2005 Australian Corporate Responsibility Index.

St James Ethics Centre would also like to thank these companies, the members of our two advisory groups and our project partners for their ongoing support and guidance which assists in the continuing refinement of the Corporate Responsibility Index to ensure its relevance and robustness are maintained.