



CORPORATE RESPONSIBILITY INDEX 2006

Executive Summary

“Corporations only flourish in flourishing communities. Businesses no longer ask if they should be responsible; only about how best to be so. The Corporate Responsibility Index is not a tool of measurement for measurement’s sake. First and foremost, it is a management tool – a roadmap for building sustainable prosperity.”

Dr Simon Longstaff, Executive Director, St James Ethics Centre

This report marks the completion of the fourth Corporate Responsibility Index (CRI) in Australia and New Zealand, launched on 18 September 2006. In total thirty-four companies, including fourteen of the ASX 50, participated in the Index representing 1.25 million employees and total revenue of AU\$520 billion.

Current Context

In 2006 the Parliamentary Joint Committee on Corporations and Financial Services (PJC) and the Corporations and Markets Advisory Committee (CAMAC) released reports following inquiries into corporate responsibility in Australia. Both reports shied away from recommending any changes to director’s duties or from introducing mandatory reporting – electing instead to encourage and support voluntary initiatives in corporate responsibility (CR).

These reports have coincided with the worst drought on record in Australia, the release of the *Stern Report* in the UK and Al Gore’s film *An Inconvenient Truth*, all of which have brought environmental and responsibility issues to centre stage. Companies are now expected to take into account a broad array of interests in service of the long-term interests of shareholders. The challenge for companies is how do they address these issues systematically. This is where the CRI ultimately assists - by providing a framework for implementation and a means to review management systems and processes thoroughly.

Top Line Results

Since the launch of the Index in Australia the sixteen companies who have participated continuously have demonstrated a year-on-year improvement trend demonstrating the usefulness of the CRI as a gap analysis tool to drive performance and assist in strategic integration of CR across the business.

- > This year five companies scored over 95% in the Index: Westpac, Toyota Australia, BHP Billiton and Rio Tinto (equal third) and ANZ.
- > The greatest improvements in performance were achieved by: Minter Ellison, Suncorp Group and Insurance Australia Group.

Participation Overview

To date, forty-seven companies have used the Index as a benchmarking tool in Australia and New Zealand. Of these, sixteen companies have participated in all four iterations of the Index.

In 2006 ten new and one returning (Coles Group) companies participated in the CRI. Seven of these companies participated in the full CRI (four privately) and four participated in the new Index modules (two privately).

Key Developments

The CRI is subject to ongoing review to continually strengthen its methodology. The following developments are the result of recent reviews in Australia and the UK:

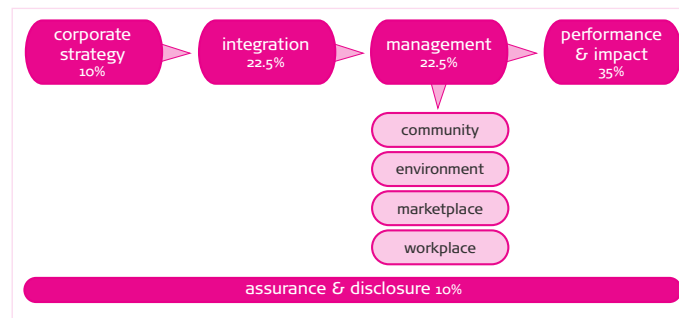
- > 2006 focused on further development of the Community Section – this related in particular to measuring performance and impact in community investment and the development of a standalone Community Module.
- > Flexible entry options were introduced allowing companies to complete modules or engage in private bench-marking as a first step to full participation over a one to two year period.
- > A Leadership Network is being developed to continue to engage and challenge companies scoring greater than 95% in the Index. We will work with these companies to examine next steps in transitioning to truly sustainable practice.
- > In 2007 a thorough review of the Marketplace section of the Index will be conducted by Business in the Community. British American Tobacco was asked to withhold its participation in the Australian Index in 2006 until this review is completed.

Thanks

With the conclusion of the fourth CRI in Australia and New Zealand we would like to acknowledge and thank those organisations that have supported and guided the project through these initial four years. Thanks to Business in the Community, the architect of the Index and its developments in the UK, who has donated the Index for use in Australia. A special note of thanks to our partners *The Sydney Morning Herald* and *The Age* for their integrity in reporting and commitment to encouraging responsible business through the media and to Ernst & Young for the professional expertise they have brought to the validation process on a *pro bono* basis. To EcoFutures and the National Business Leaders Forum on Sustainable Development who continue to champion the cause of sustainable business and raise the bar, and to our two advisory groups whose breadth of expertise is invaluable in the ongoing development of the Index. To the New Zealand Business Council for Sustainable Development for their assistance with our work in New Zealand. And finally, to all the companies who have submitted themselves to this rigorous, voluntary examination of their corporate responsibility practices thereby demonstrating that business can lead the way.

The Index Model © Business in the Community

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?

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.

The **Assurance** section ensures the accuracy, relevance and reliability of information provided by companies within the survey. To further increase the level of assurance the **Disclosure** section scores companies on their willingness to share their submission and results with external stakeholders.

New Engagement Options

In 2006 two new participation options were introduced as transitional steps towards participation in the full Index. These included (1) a private benchmarking option and (2) two modular options. The modular options follow the same structure as the full Index but focus on a single impact area (either Environment or Community).

Index Process

Participation in the Index is on a voluntary basis. Companies complete a web-based survey supplemented by a series of guidance notes. As this is a self-assessment process, each submission is required to be accompanied by supporting documentary evidence and signed off by the company Chief Executive or a relevant Board member.

Validation: In 2006 Ernst & Young's Environment and Sustainability Services practice, operating under a formal letter of engagement with St James Ethics Centre, provided validation for the fourth consecutive year. 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. Site visits were conducted for all participants to check company understanding and interpretation of the Index.

Scoring: Post validation, final company scores were generated automatically by the Business in the Community online benchmarking system according to the weightings in the model above.

Feedback: All participating companies receive detailed confidential feedback on their performance compared with their sector and all other participants. This gap analysis assists companies to identify areas of strength and for improvement. It forms a useful tool to present information at board level and develop plans for further action.

Stakeholder Engagement & Review

St James Ethics Centre engages regularly with a variety of stakeholders to assist in providing feedback to Business in the Community. This feedback includes opportunities for continuing refinement of the Index to ensure its relevance and robustness are maintained.

Our key stakeholders include two advisory groups representing non-government organisations, professional and industry groups and participating companies as well as our project partners.

Further information on the Corporate Responsibility Index model, validation process and participation options and costs is available on our website at: www.corporate-responsibility.com.au

An Overview of the Results

Participating companies in the 2006 Index achieved an average score of 83.3%. With the opportunity for companies to enter the Index at an earlier stage in their corporate responsibility (CR) journey, through the new private benchmarking and module entry options, the overall average of participants dropped slightly (2%) from 2005.

The sixteen companies who have participated in the Index continuously over the last four years have demonstrated a steady increase in their overall average from 80 to 88%.

Sector Analysis

The most engaged sectors in the Index were Consumer Staples (8) incorporating four Food & Beverages participants, Financial Services (7), Materials (6) and Utilities (4). Other participating sectors included Consumer Discretionary (3), Energy (1), Healthcare (1), IT (1), Professional Services (1) Telecommunications (1) and Transport/Logistics (1).

Corporate Strategy

Corporate Strategy was again the section with the strongest performance at 94% demonstrating that participating companies are placing corporate responsibility values at the core of their business strategy, that key social and environmental risks and opportunities have been identified and addressed by principles and policies, and that there is demonstrable leadership commitment.

- > **Leadership:** 90% of respondents have had a substantive discussion of CR issues at Board level in the past year. However only 63% of Boards have discussed specific KPIs to measure their performance on these issues.
- > **Risk Management:** 83% of participants evaluate community, workplace, marketplace and environmental issues within their formal risk management processes.
- > **Policies:** 73% of participating companies have now implemented company wide policies on Human Rights and Supply Chain issues.

Integration

Regarding the implementation of CR strategies throughout a business the strongest scoring elements in 2006 were training and development of all staff from employees to Board members (92%) and the incorporation of CR principles into business conduct documents and procedures (97%). Public reporting of CR issues remains the least well integrated element (67%).

- > **CR Principles:** 83% of participants have asked staff if they believe the company lives up to its CR principles yet 40% have not asked this question of other key stakeholders.
- > **Strategic Decision-Making:** When researching and developing new products and services over 80% of participants have considered the environmental and social impacts and can provide an example of where it affected their decision-making.
- > **Training:** Four in five participants provide training on specific CR issues as they arise eg. disability, environmental legislation.
- > **Stakeholder Engagement:** 73% of respondents engage stakeholders in the identification and monitoring of KPIs, however, only 63% involve stakeholders in shaping their reporting of CR issues.

Management Practice

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.

- > **Community:** Although 70% of participants have put their community strategy in the public domain only 40% can produce a third party independent statement indicating the effectiveness of implementation. Targets have been set and are regularly reviewed by 87% of participants and half have put these targets in the public domain. In relation to community investment companies are more likely to centrally collate and report their inputs (cash, time, in-kind) than outputs (leverage, benefits).

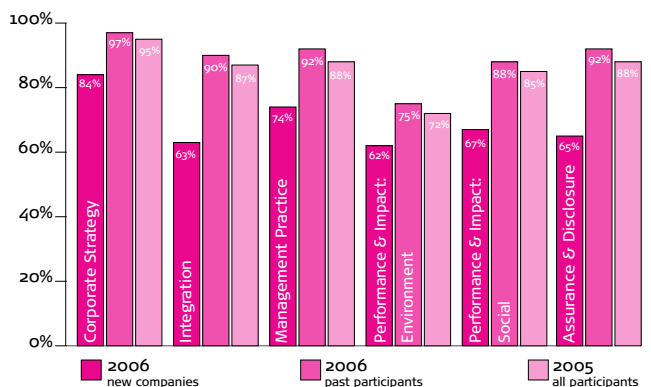
- > **Environment:** Almost all participants can demonstrate that corporate environmental management targets have been set yet only 60% publicly report performance against these targets. Furthermore, 87% of companies have established an internal audit process although less than half can demonstrate the effectiveness of the system as determined by third party verification.
- > **Marketplace:** Of the seventeen participating companies responding to social stewardship sixteen could demonstrate that they had taken steps to reduce the negative impacts and enhance the positive impacts of their products/services. In relation to environmental stewardship 73% had influenced their customers to use their products/services in a more responsible manner. The greatest challenge for companies remains in supporting and encouraging their suppliers to improve their social and environmental performance and to continue this down the supply chain..
- > **Workplace:** Workplace is the strongest area of management practice for participating companies. Most participating companies have set and review workplace objectives with 70% putting these in the public domain although only 27% have put targets in the public domain to assist the company to meet these objectives.

Performance & Impact

Participating companies' performance and impact in relation to social issues (83%) remains stronger than for environmental issues (72%). The majority of companies measure their impact across their entire operations however few have set performance targets or are able to demonstrate long-term continual performance improvement.

- > **Environment:** Companies have demonstrated progress in the management of their climate change impacts through enhanced management practices and reductions in emissions, however, management of waste and resource impacts requires improvement. With Australian companies facing the effects of the worst drought on record nearly half chose water consumption as their self-selected environmental impact area.
- > **Social:** The most popular social impacts chosen were OH&S (23), Community Investment (18) and Diversity in the Workplace (17). Product Health & Safety again achieved the highest score at 99%. Of the eighteen companies electing to report on a self-selected impact area eight chose workplace related issues and nine chose community impacts.

Overall Average Index Scores



"Over the four years of our involvement we feel the Index has improved our processes and ultimately our performance. These improvements are delivering business benefits in addition to community benefits."

Guy Templeton, Chief Executive Officer, Minter Ellison Lawyers

"The CRI has given us a credible benchmark which gives our employees, customers, consumers, and the broader community including government the confidence that we genuinely care about the environment and the community."

Wayne Jones, Managing Director, Kimberly-Clark Australia

2006 Corporate Responsibility Index Results

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Company	Scope [^]	Overall Score	Corporate Strategy	Integration	Management Practice	Performance & Impact		Assurance & Disclosure
						Environment	Social	
Australian & New Zealand submissions:								
Ancor [†]	Australia	✓	★	✓	✓	✓	★	★
AMP Limited	100%	★	★	★	★	✓	★	✓
Australia & New Zealand Banking Group Limited	100%	★	★	★	★	★	★	★
Boral Limited	100%	★	★	★	★	★	★	★
Caltex Australia Limited	100%	★	★	★	★	✓	★	★
Coles Group Limited	100%	✓	★	✓	✓	✓	✓	★
Country Energy	100%	✓	★	✓	★	✓	★	✓
EnergyAustralia	100%	★	★	★	★	✓	★	★
Foster's Group Limited [†]	Australia	★	★	★	★	★	★	★
GM Holden Ltd [†]	Australia	★	★	★	★	✓	★	★
IBM Australia	Australia	★	★	★	★	★	★	★
Insurance Australia Group Ltd	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%	★	★	★	★	★	★	★
Private Index average (four companies)	Aust/NZ	✓	★	✓	✓	✓	✓	✓
Global submissions*:								
Anglo American	100%	★	★	★	★	★	★	★
AstraZeneca	100%	★	★	★	★	★	★	★
BHP Billiton	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

*Index surveys for global companies with operations in Australia/New Zealand submitted in the UK and validated by Business in the Community.

[†]Company score based on 2005 data

[^] Scope: 100%: 100% operations (global or greater than 75% of global operations in Australia/New Zealand)

Australia/New Zealand: Australian and/or New Zealand operations only (global business)

Module submissions [‡]	Scope [^]	Corporate Strategy		Integration		Management Practice		Performance & Impact		Assurance & Disclosure	
		Env	Comm	Env	Comm	Env	Comm	Env	Comm	Env	Comm
Kimberly-Clark Australia	Australia	★	✓	★	✓	✓	✓	★	★	★	★
Visy	100%	★	✓	✓	✓	✓	✓	✓	✓	★	✓
Private Module average (two companies)**	100%	★	N/A	✓	N/A	✓	N/A	✓	N/A	✓	N/A

★ 90%+ ★ 80-89.99% ★ 75-79.99% ✓ 74.99% and less

[‡] The Environment (Env) and Community (Comm) Modules were introduced in 2006 as a transitional step towards participation in the full Corporate Responsibility Index.

** Only one company participated privately in the Community Module so an average is not applicable.

"The CRI has helped us to more closely examine all our corporate responsibility programs, while providing a benchmark for continual improvement. The insights we've gained have helped us to refine our approach and improve our rating every year - and it's our people, community and environment that benefit."

Glen Boreham, CEO & Managing Director, IBM Australia/New Zealand

"BHP Billiton recognises the importance of hearing, understanding and responding to the concerns and expectation of our stakeholders. The CRI is a useful benchmarking process and provides important input to the continuous improvement of our sustainable development approach."

Charles Goodyear, Chief Executive Officer, BHP Billiton

The Corporate Responsibility Index is a project of St James Ethics Centre:

GPO Box 3599 Sydney NSW 2001 Australia 9 Rangers Road Neutral Bay

T: +61 (0)2 9299 9566 F: +61 (0)2 9299 9477 E: cr-index@ethics.org.au

www.corporate-responsibility.com.au

ABN 83 637 740 533 ARBN 094 609 015