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807:Keeping Up With Social Responsibility—A Primer on Standards, Surveys, & Investment

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Faculty Biographies

Patricia L Goughan

Patricia L. Goughan is corporate counsel in Hewlett-Packard's corporate headquarters in Palo Alto, California. Her practice area is environmental law and related product regulation.

Prior to this position, she was environmental attorney at Spectra Physics, attorney at Ciba-Geigy Corporation, and senior editor at Matthew-Bender Company.

She is a member of the State Bar of California, ACCA, and The Conference Board.

She received her AB from Barnard College and JD from New York University.

Debra Sabatini Hennelly

Debra Sabatini Hennelly is vice president & general counsel of Integrity Interactive Corporation, which specializes in Internet-based corporate compliance and ethics programs.

Prior to this position, Ms Hennelly, was corporate counsel for regulatory and compliance at Avaya, where she developed and implemented a global, web-based ethics and compliance program. She also provided legal counsel for corporate compliance, including environmental, safety, global trade, antitrust, product registration, and other regulatory and policy issues. Prior to her role at Avaya, she served as corporate counsel for Lucent's Business Communications Systems, where she provided commercial legal support for various parts of the business, and as corporate counsel for environment and safety for Lucent and AT&T. Before joining AT&T, she practiced environmental law with Bryan Cave in Washington, DC, and with Riker, Danzig in Morristown, NJ. Originally trained as an engineer, Ms. Hennelly began her career as a construction and tank engineer for Exxon Company, USA.

Ms. Hennelly has written and lectured extensively on compliance issues and is currently chair of ACCA's Environmental Law Committee. She has been active for more than 10 years with the University of Virginia's Alumni Council. She is also a member of the board of trustees of the Electronic Industries Foundation, which fosters science and math education to help develop the technology workforce of the future.

Ms. Hennelly earned a BS, *magna cum laude,* from Duke University and a JD from the University of Virginia Law School.

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David P. Stangis

David P. Stangis is Intel Corporation's director of corporate responsibility. In this role, he manages Intel's relationships with socially responsible investors and coordinates public affairs and external engagement in the areas of corporate responsibility. Mr. Stangis is responsible for monitoring and responding to emerging issues that may affect Intel's reputation and works directly with other Intel organizations to help coordinate strategy. He also manages the production of Intel's global corporate citizenship report.

Prior to Mr. Stangis's current assignment, he served as Intel's EHS external affairs manager and produced Intel's environmental, health, and safety performance report. He has held a range of EHS and policy positions prior to Intel.

Mr. Stangis has spoken on the subjects of corporate responsibility and environmental, health, and safety at many universities and conferences. He is working with the Kenen Institute in Washington on CSR policy recommendations, is an advisor to CSR Network's Benchmark Reporting, and serves on the American Association for the Advancement of Science ("AAAS") and Scientific Freedom and Responsibility Award Committee.

Mr. Stangis received his BS from the University of Detroit, a MS from Wayne State University, and his MBA from the University of Michigan. He is a certified industrial hygienist and a certified safety professional.

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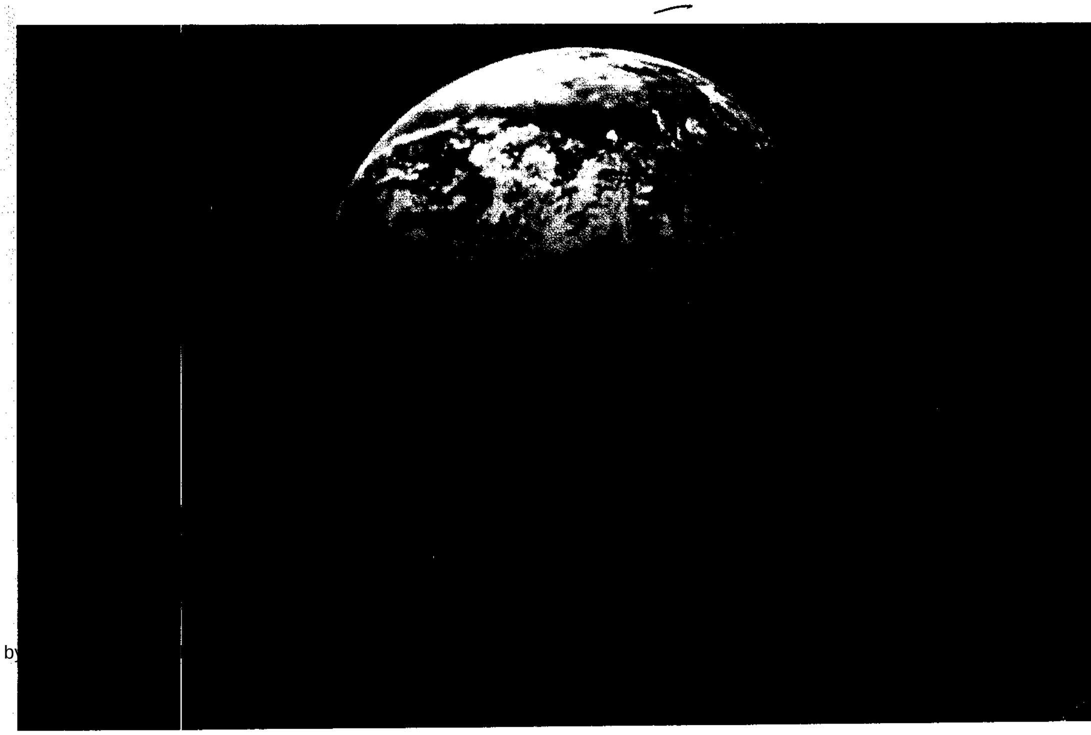
Corporate Environmental Governance: Benchmarks Toward World-Class Systems

In a two-part study, the self-reported environmental governance profiles of 45 leading organizations were compared to help identify the aggregate state-of-the-art of worldwide environmental management systems (EMS). Then, "peer-identified leaders" within the sample population were identified and contrasted as a subset of the sample population. In almost all aspects of system design and implementation, significant differences existed to support the relationship between "peer-identified leader" status and reputation, as well as in actual systems design and implementation. While the study is qualitative in certain respects, the findings tend to support the observations that what was considered "leadership" a decade ago is now relatively commonplace among most organizations, and that leading companies are continuing to develop and expand their systems of corporate environmental governance to seamlessly satisfy both internal and external concerns. Not surprisingly, performance measurement emerged as the dominant component of existing, in-place systems, whereas stakeholder relations, social issues, and sustainability are emerging as developing areas within the EMS framework currently in place.



"If you don't measure improvements in your environmental performance, environmental projects are very difficult to sell. One of the greatest benefits of implementing the ISO 14000 standard for Ford is that it has forced us to measure and enabled us to demonstrate our success."

John Connor
Principal, Environmental Control Engineer
Ford Motor Company

Nearly a decade later, this study finds that what was characteristic of leading companies in 1991 is much more commonplace today, and that leading companies are filling in the gaps in other aspects of their EMSs. Most importantly, leading companies are investing in intellectual capital to:

- understand better their customer's environmental needs and the needs and values of their environmental stakeholders;
- learn and manage environmental knowledge more effectively;
- integrate the environment into sustainable corporate strategies;
- design products and processes that radically reduce their environmental footprint; and
- improve their day-to-day work processes.

The findings of this report are presented in two sections. The first section presents an overview of the aggregate findings based on the responses of all study participants. The second part focuses on the characteristics of those companies identified as environmental leaders by fellow respondents.

What Is an EMS?

An environmental management system (EMS) is a systematic approach for managing an organization's environmental issues and opportunities. Good or even "best" practices alone do not make an EMS. The essential characteristic of an EMS is that its components interact to provide measurable results enabling continuous improvement. The "systems approach" means that processes are stable and repeatable, yield predictable outcomes, and adapt new learning to continuous improvement.

Study Focus

The questionnaire was divided into seven sections that generally correspond to the Plan-Do-Check-Act cycle characteristic of most organizations' EMSs:

Organizational leadership: the degree of internal and external leadership concerning environmental issues provided by senior management and the deployment of this leadership throughout the organization.

Customer and stakeholder focus: systematic processes to understand and anticipate customer and stakeholder environmental needs.

Knowledge management: the systematic acquisition and deployment and use of environmental knowledge in all organization functions.

Strategic planning: the integration of environmental considerations in corporate strategic planning processes.

Design processes: the systematic incorporation of environmental information and customer/stakeholder environmental needs into product, service, and process design.

Work processes: the systematic integration of environmental considerations into the internal work processes of the organization.

Performance measurement: the utilization of a wide range of multi-media and multi-dimensional measures, including some economic and social measures, to evaluate performance, and the systematic review of performance by senior management.

Table 1

Drivers Behind Implementing an EMS

Manage operational risks	40%
Improve operational efficiency	40
Address regulatory concerns	33
Improve employee environmental competence	24
Contribute to the economic bottom line	24
Reduce costs	24
Address strategic opportunities and threats	18

Percent of respondents giving a rating of high importance

Establishing an EMS

Survey data suggest that the need to manage operational risks and maximize operational effectiveness were the main drivers in the decision to implement an EMS.

Pressure to become ISO 14000 certified was not a principal driving force (see Box below). Notwithstanding the primary motivation for having an EMS, the existence of "model" standards has resulted in organizations redesigning, and in some cases, re-establishing their environmental management systems (see Table 1).

Management system elements that have been added or incorporated in terms of EMSs within the past two years include:

- more formalized procedures and audits;
- ISO 14001 conformity and continuous improvement;
- environmental aspects identification;
- employee training and involvement;
- a common worldwide EMS model; and
- supply chain management.

How Is ISO 14000 Viewed?

The International Organization for Standardization (ISO) 14000 family of standards provides standards and guidelines to address environmental management. Built on an international platform through a consensus process, these voluntary standards have evolved over the past eight years. One of these standards, ISO 14001, is widely considered to represent an international consensus concerning the "verifiable core elements" of an EMS. Organizations employing the ISO 14001 system may opt to have a third party certify their EMS.

Environmental management systems are not a new idea, and most companies report having an EMS in place prior to the publication of ISO 14001 in 1996. Nevertheless, ISO 14001 has had a significant effect in promoting a more systematic approach to environmental management and in creating a common EMS vocabulary. While roughly 20 percent of respondents base their EMS solely on ISO 14001, about 60 percent base their EMS at least in part on ISO 14001. Moreover, the study finds that EMS elements most commonly updated in the past two years pertain to elements of the ISO 14001 standard.

"All of our major corporate EH&S initiatives are launched by either the COO or CEO."

Joseph Shimsky
Executive Director
Corporate Safety and Environmental Affairs
Pitney Bowes

Looking Forward

Management system elements or attributes that participating organizations plan to add to EMSs in the next two years include mechanisms addressing:

- sustainable development;
- community/social measures;
- external stakeholder reporting;
- life-cycle analysis;
- salary/bonus considerations for some positions;
- integrating health and safety aspects into EMS; and
- identifying and tracking EH&S-driven costs.

Companies Demonstrate Similar Strengths and Opportunities In the Development of Their Management Systems

Despite the unique profile of each participating organization, several common strengths and opportunities are evident:

- Organizational implementation of leadership elements and measurement mechanisms, such as audits and internal reviews, surpass other components in their degree of implementation.
- Customer and stakeholder relations, strategic planning, design processes, and work processes are significantly less developed elements of organizations' EMS framework, leaving open opportunities for improvement and integration.

Part One: A More Detailed Look at Survey Results

This section is organized according to the seven management system constructs forming the structure of the survey:

Organizational Leadership and Commitment

- Virtually all (97 percent) of participating organizations have written policy-level commitments to the environment, health, and safety. About 40 percent have had such commitments in place for more than six years.
- 69 percent of senior environmental officers are members of their organization's executive committee or senior management team.
- 78 percent of respondents report having well-established mechanisms in place for board of directors review of environmental performance, 54 percent of these reviews occur annually (see Chart 1).
- 63 percent of respondents have well-established mechanisms in place for the regular review by senior management of company-wide environmental performance.
- 38 percent of respondents have issued a policy-level commitment to sustainable development in the past two years; only one reports a policy commitment going back 6 to 10 years. Fifty-three percent of organizations did not respond to this question, suggesting that they have not yet established such a policy.
- 53 percent of respondents report that, internally, their CEO is viewed as the chief environmental spokesperson. Externally, 49 percent report that the CEO is considered the chief environmental spokesperson.

In aggregate, 68 percent of organizations report having mechanisms in place to compensate senior EH&S management for environmental performance. Compensation linked to environmental performance is much less common among both top-level executives and senior non-EH&S managers (see Table 2).

Chart 1

How Often is Environmental Performance Reported to The Board of Directors?

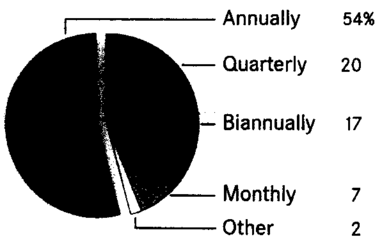


Table 2

EH&S Performance and Compensation Are Most Often Linked for Senior EH&S Management

Senior EH&S management	68%
Plant management	60
Operations management	59
Senior non-EH&S management	45
Executive management	44

Percent of respondents with systems substantially or fully in place

Stakeholders Speak and Listen

"We have tracked increased investments in our stocks, reductions in the number of stakeholder complaints, and an increase in positive feedback about our environmental performance."
Miguel Gonzalez, Corporate vice president, EH&S, Cemex, S.A.

"Mechanisms designed to anticipate customer environmental concerns have improved product marketability."
Jim McClain
Principal specialist, Abbott Laboratories

"We have experienced success in our customer and stakeholder outreach efforts through cost avoidance and improved emergency response."
Maxwell McCombs
Chairman, EH&S Council, Solutia, Inc.

Table 3
Organizations Track Community Stakeholder Concerns

Community stakeholders	55%
Customers	42
Environmental NGOs	40
Financial stakeholders	31
Suppliers/vendors	31

Percent of respondents with systems substantially or fully in place

Table 4
EH&S Knowledge Is Not Fully Utilized in Key Functions

Operations planning	64%
Strategic planning	56
Community relations	52
Product design	43
Customer relations	41
Supplier relations	30
Competitive strategies	29
Marketing design	21

Percent of respondents with systems substantially or fully in place

Customer and Stakeholder Focus

While in aggregate the customer and stakeholder focus of EMSs is less well-developed than other components of EMSs, many organizations have developed mechanisms to track environmental issues and concerns expressed by community stakeholders (see Table 3). Only 30 percent report that a mechanism is in place to integrate these customer and stakeholder concerns into the overall business strategy.

The common mechanisms for measuring and anticipating concerns of stakeholders include:

- meeting with stakeholder groups;
- attending conferences and other public gatherings;
- holding regular community meetings;
- Internet monitoring and literature reviews; and
- participating in trade association and industry alliance meetings.

Knowledge Management

Survey data suggest that knowledge management is only moderately developed and integrated within responding organizations. While 90 percent of companies report that they systematically manage knowledge of environmental issues, this information is not fully leveraged or integrated within the organization (see Table 4). Only 37 percent of organizations report using external benchmarking processes to keep abreast of best-in-class environmental management techniques.

"We need a cultural change to knowledge sharing from knowledge saving."

Timothy Dyhr
Group Manager, Environment
BHP Non-Ferrous & Industrial Materials

Mechanisms companies use to enable the exchange of lessons learned within the organization include:

- global/regional conferences
- intranet postings
- resource centers and centers of excellence
- best practices workshops and roundtables
- self-assessments
- shared learnings from internal audit programs
- environmental training refresher courses

Current knowledge management priorities are:

- internal cultural change
- information sharing
- information tools
- specific content areas such as sustainable development, emerging issues, plant regulatory/permitting status, and changes in legislation

Strategic Planning

Approximately 50 percent of companies report having systems substantially or fully in place to bring strategic environmental considerations into their corporations' overall business strategy. Nearly all other respondents report that they are currently developing such a strategy.

- 38 percent apply core business competencies (such as quality, technological leadership, and market responsiveness) to environmental management.
- 31 percent consider their environmental expertise a core competency in formulating their overall business strategy.
- 22 percent of organizations involve external environmental experts in the overall strategic planning process.

In aggregate, the environmental planning horizon of respondents looks slightly further into the future than the business planning horizon (see Chart 2). On a company-specific basis, this could help account for some of the challenges in strategic integration.

Chart 2
How Long Are the Environmental and Business Planning Horizons?

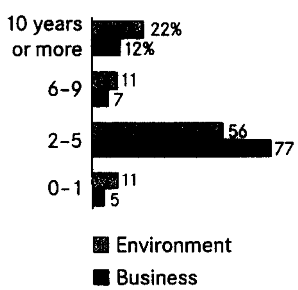


Table 5

What Issues Are Perceived as Threats?

Climate change/Kyoto	34%
Regulatory developments	32
Product bans and restrictions	25
Stakeholder issues	23
Resource scarcity	20
International regulations	16
Low-concentration chemicals	14

Multiple responses were permitted

Table 6

What Issues Are Perceived as Strategic Opportunities?

New product development	32%
Materials/resource use efficiency	30
Sustainable development	18
Customer/stakeholders	14
Government partnerships	14
Process innovation	14
Climate change	11

Multiple responses were permitted.

Looking into the future, organizations view climate change as a top top environmental threat (see Table 5), while new product development is most often viewed as the greatest opportunity (see Table 6).

Tracking the Triple Bottom Line

While nearly 50 percent of respondents report having no mechanisms in place to track economic, social, and environmental performance (the triple bottom line) on an integrated basis, 30 percent report that they have started to track the triple bottom line and 10 percent report having systems in place. The range and diversity of comments relative to how organizations are tracking the triple bottom line underscores the early stage of this developing methodology and emerging management system opportunities. Comments on how companies are approaching the triple bottom line were varied:

"Shareholder value added/footprint metric in place and used to make portfolio changes."

"'Triple bottom line' is a nice concept but has few standards, tools, and measurements to implement."

"'Triple bottom line' terminology is confusing. We use economic, social, and environmental measures to track each issue separately."

"They are measured separately and on different levels; we haven't yet developed an integrated measure."

"Our plants interact with the community on programs such as education, medical assistance, and recycling."

Design Processes

Overall, design process components are the least developed and integrated portion of any of the EMS elements; nevertheless, approximately half (48 percent) of all respondents report having a mechanism in place whereby adverse environmental concerns can override a case for an otherwise compelling and profitable business or manufacturing opportunity.

- 48 percent of organizations report having a mechanism in place to drive design processes toward minimizing overall environmental impacts in product or process development while addressing customer needs or "footprints."
- 42 percent report having a mechanism in place to subject all product/service designs to an environmental review and approval prior to introduction.

"The amount of time and energy it takes to actually develop and fully implement EH&S work processes is huge compared to simply declaring one's organizational commitment. So it does not surprise me that development of the work processes area lags behind the development of other management system components."

Jeff Klieve
Director, Environmental Affairs
Monsanto

- 30 percent have a mechanism substantially or fully in place that drives the voluntary identification and phase-out of materials deemed to be non-environmentally friendly.
- 23 percent have a mechanism in place to minimize the life-cycle impacts of specific product or process designs through the use of techniques such as design for environment or life-cycle analysis.
- 18 percent report linking the product or service design process to a clearly defined mechanism to address or anticipate customer and stakeholder environmental needs and issues.

Work Processes

Nearly half of the organizations report that employee performance management systems within the manufacturing and service delivery sectors include environmental criteria as a measurable objective. Sixty percent of respondents report mechanisms in place to ensure that on- and off-site contractors perform in a manner that satisfies corporate environmental objectives.

- 46 percent continually analyze operational processes for environmental improvement opportunities.
- 18 percent leverage other business processes (e.g., R&D, marketing) to support the task of meeting environmental objectives.
- Relatively few (16 percent) report environmental accounting mechanisms in place to identify and allocate environmental costs of specific products or processes.
- Only a small number of organizations have fully developed mechanisms in place to integrate environmental considerations throughout the entire supply-chain.
- 19 percent conduct systematic evaluations of environmental aspects of supplier operations as part of their own environmental management.
- 12 percent receive assistance from customers and suppliers to improve their own environmental performance.
- Fewer than 10 percent of respondents have systems in place to mentor suppliers and customers in improving environmental performance on a global basis.

"Compensation is the key. If you are adequately compensating employees for their environmental performance, you can just sit back, shut up, and watch things happen."

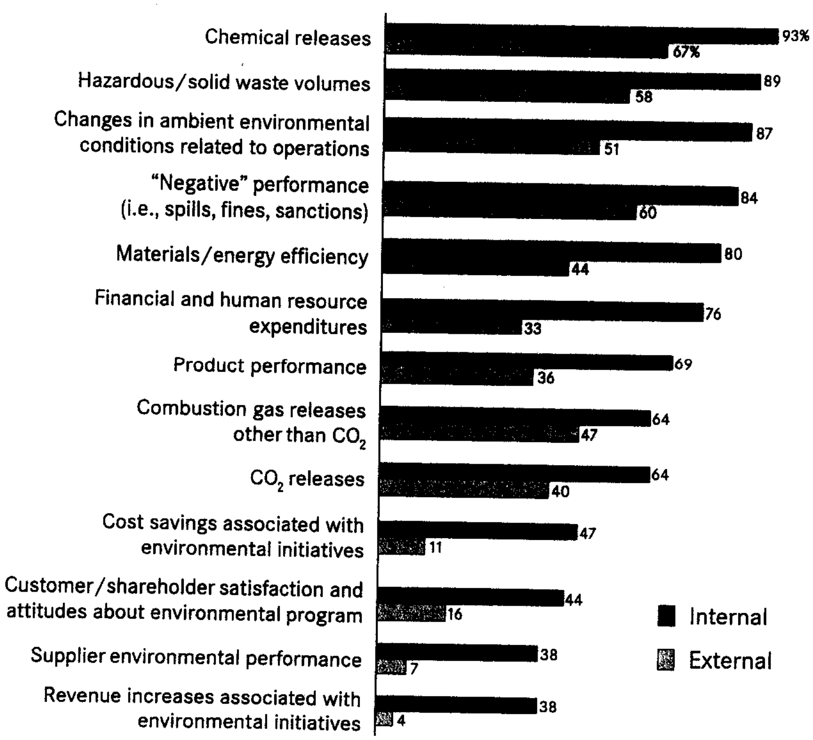
Glenn Barbi
Director
Corporate Safety and Environment
Becton Dickinson & Company

Performance Measurement

Survey data show that performance measurement is the most highly developed and fully implemented element of EMSs. Not surprisingly, a fair amount of emphasis is placed on reporting environmental performance measures to executive management.

- 73 percent of respondents report that their organizations' top corporate management team reviews environmental performance against established organizational objectives.
- Given a uniform level of information collected in any particular category, organizations are more likely to use the data for internal reporting purposes than for external disclosure (see Chart 3).
- Measurement and assessment of direct financial benefits (i.e., cost reductions or increased revenue) are rare compared to other more traditional indicators.

Chart 3
Performance Indicators Are Used Internally More Often Than Externally



Other Performance Indicators Used:

- Shareholder value added (SVA)
- Shareholder involvement and opinions
- Number of facilities ISO 14000 certified
- Safety incident reports and statistics
- Waste generation
- Water use
- Audit results

Part Two: Peers Identify World-Class Environmental Leaders

Study Participants Considered Environmental Leaders by Peer Companies
(listed alphabetically)

- Baxter International
- BP Amoco
- Bristol-Myers Squibb
- DuPont
- IBM
- Johnson & Johnson
- Lucent Technologies
- Monsanto
- 3M

In addition to providing data about their own organization, each study participant was asked, in an open-ended question, to identify the organization(s) they view as world-class environmental leaders, regardless of industry sector. Study participants identified 38 companies worldwide.

- Of the 38 companies, 13 companies were cited three or more times.
- Of the 13 companies cited three or more times, nine participated in this survey (see Box).

The sections that follow highlight those EMS attributes where peer-identified leading company responses differed by a statistically significant margin (at a 95 percent confidence level) from the overall aggregate responses.

Characteristics of Peer-Identified Leaders

Peer-identified leaders are larger, on average, than other respondents with respect to annual revenue and total number of employees (see Table 7).

Peer-identified leaders tend to operate in environmentally sensitive and rapidly changing research or technology-intensive industries such as:

- pharmaceuticals;
- information technology/electronics/telecommunications;
- chemicals and diversified manufacturing; and
- petrochemicals/oil and gas.

Table 7
Peer-Identified Environmental Leaders

	Peer-Identified Leaders	Other
Annual Revenue:		
Greater than $20 billion	5	5
$10–$20 billion	2	4
$5–$10 billion	2	10
Less than $5 billion	0	15
Number of Employees Worldwide:		
Greater than 100,000	2	3
50,000–100,000	5	6
10,000–50,000	2	14
Less than 10,000	0	12

How Do Peer-Identified Leaders Differ From Other Organizations?

Overall, peer-identified leaders exhibit more fully developed characteristics in each of the seven management system areas explored (see Chart 4).

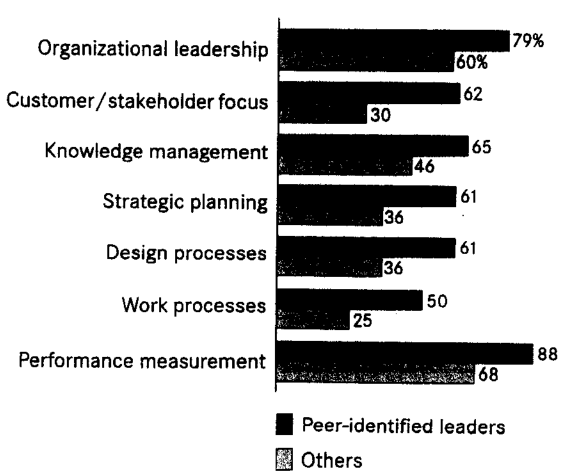
Organizational Leadership and Commitment

- 86 percent of the peer-identified leaders include an explicit commitment to sustainable development in their organizations' core set of values or mission statement versus 30 percent of the other study participants.
- Peer-identified leaders are more likely to have an administrative mechanism in place that compensates plant, operations, senior EH&S management, and senior non-EH&S executive management for superior EH&S performance (see Chart 5).

Customer and Stakeholder Focus

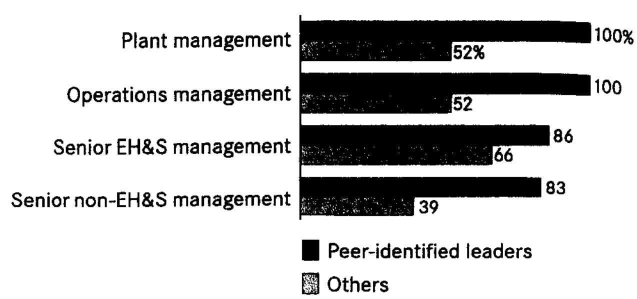
- 43 percent of peer-identified leaders have a mechanism in place to consolidate and integrate findings of customer and stakeholder concerns into business strategies, compared to 27 percent of other respondents reporting these mechanisms in place.
- Peer-identified leaders are more than twice as likely as others to have a management system mechanism in place to track current environmental factors and concerns of various stakeholder groups (see Chart 6).
- 63 percent of the peer-identified leaders, versus 35 percent of the other organizations, report that the value added from having such mechanisms in place can be measured.
- 56 percent of the peer-identified leaders also have mechanisms in place to anticipate the future needs of stakeholder groups, compared to only 18 percent of the other organizations.

Chart 4
Peer-Identified Leaders Score More Favorably



Percent of respondents with systems substantially or fully in place

Chart 5
Peer-Identified Leaders Are More Likely to Link EH&S Performance to Compensation



Percent of respondents with systems substantially or fully in place

"We hold regular workshops with our customers to address their EH&S concerns. One example of this is that a customer focus group assisted in the development of our environmentally responsible Herbal Essences® product line."

Thomas Hellman
Vice President, EH&S and Corporate Product Quality
Bristol-Myers Squibb

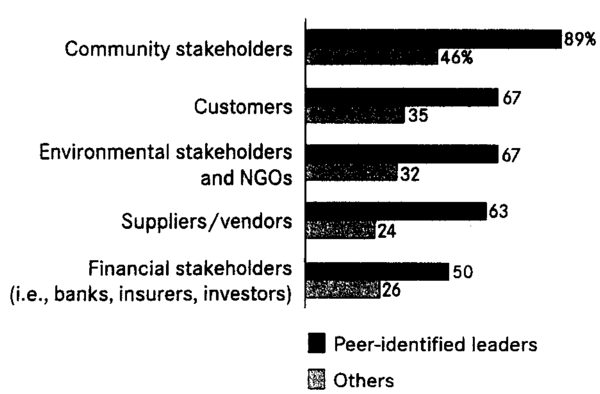
Knowledge Management

- Peer-identified leaders are more likely to exchange environmental knowledge both internally and externally (see Chart 7).
- 50 percent of peer-identified leaders have internal mechanisms to ensure that environmental information is utilized in supplier relations, as compared to 26 percent of the other organizations.
- An even higher percentage of peer-identified leaders have an internal mechanism in place to utilize environmental information in community relations, with 88 percent having systems substantially or fully in place, compared to 46 percent of other organizations.
- 38 percent of peer-identified leaders, versus 18 percent of other respondents, report having internal mechanisms to ensure that environmental information is utilized when designing marketing strategies.
- 88 percent of peer-identified leaders have mechanisms in place to utilize environmental information in product design, while only 34 percent of other survey respondents report having similar mechanisms in place.
- 86 percent of the peer-identified leaders utilize external benchmarking as compared to 26 percent of others.

Strategic Planning

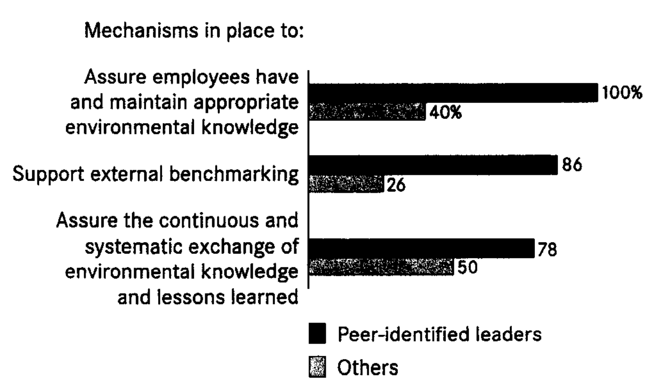
- Data suggest that peer-identified leaders are more likely than others to have a mechanism in place to ensure that environmental considerations are integrated into their organization's overall business strategy. 71 percent of peer-identified leaders report having such mechanisms in place, compared to 45 percent of other respondents.

Chart 6
Peer-Identified Leaders Are More Likely To Have Mechanisms To Track Environmental Concerns of:



Percent of respondents with systems substantially or fully in place

Chart 7
Peer-Identified Leaders Emphasize Environmental Knowledge Capacity



Percent of respondents with systems substantially or fully in place

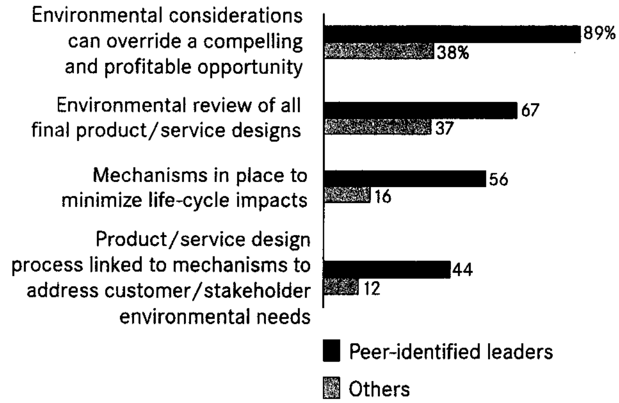
- 38 percent of peer-identified leaders have mechanisms in place to track their organization's economic, social, and environmental performance on a coordinated basis, whereas 3 percent of other survey respondents report having these mechanisms substantially or fully in place.
- 88 percent of peer-identified leaders include economic elements of the triple bottom line in the corporation's environmental strategy, and 50 percent of them include social elements. Comparatively, 29 percent of the other organizations include consideration of economic elements, and 23 percent include social elements.
- Peer-identified leaders are more likely to leverage their organization's core business competencies (e.g., quality, technological leadership, market responsiveness) while addressing strategic environmental concerns, with 78 percent of identified leaders and only 29 percent of other survey respondents reporting that they leverage their internal competencies.
- 44 percent of identified leaders' organizations consider their environmental expertise a core competency in formulating their overall business strategy, compared with 29 percent of the other respondents.
- Peer-identified leaders see different strategic threats and opportunities. Many leaders believe that threats also present opportunities, whereas leaders tend to see greater opportunities in product development. Other respondents tend to see greater regulatory threats.

Design Processes

- 89 percent of peer-identified leaders, versus 38 percent of other respondents, report having mechanisms in place to drive design processes toward minimizing overall environmental impacts or "footprints" during the product or process concept development stage while addressing customer needs.
- 67 percent of peer-identified leaders have mechanisms in place to subject all product designs to a final environmental review and approval prior to market introduction, whereas 37 percent of other survey respondents reported having these mechanisms in place.
- Peer-identified leaders are more likely to have mechanisms in place to minimize life-cycle impacts of specific product or process designs through techniques such as design for environment or life-cycle analysis (see Chart 8).

Chart 8

Peer-Identified Leaders Integrate Environmental Considerations into Process and Product Design



Percent of respondents with systems substantially or fully in place

> "We are in the process of developing an information management tool that will systematically interpret and integrate EH&S concerns into the product development process."
>
> Thomas Hellman
> Vice President, EH&S and Corporate Product Quality
> Bristol-Myers Squibb

Work Processes

- 78 percent of peer-identified leaders include measurable environmental performance criteria in individual employee performance management systems in the manufacturing and service delivery sectors of the organization, compared to 39 percent of other respondents having systems substantially or fully in place.
- All peer-identified leaders have a mechanism in place to ensure that outside contractors receive adequate training and support on environmental issues so that performance is measurably consistent with corporate objectives; half of other organizations state that these mechanisms are in place.
- 33 percent of peer-identified leaders have mechanisms in place to evaluate supplier operations and environmental objectives as part of their overall environmental management; 15 percent of other survey respondents report having these mechanisms in place.
- Peer-identified leaders are more likely (44 percent) to establish mechanisms for non-EH&S corporate or business support processes (e.g., finance, research and development, sales, marketing) to contribute to meeting environmental objectives, than the 11 percent of the other organizations reporting the same.
- 22 percent of identified leaders have mechanisms in place to mentor suppliers or customers in improving their environmental performance, while just 6 percent of other respondents state that these mechanisms are in place within their organizations reporting the same.

> "To better anticipate the environmental concerns of our customer and stakeholder groups, we have initiated an outreach effort focused on bringing together academic, regulatory, community, and corporate thought leaders."
>
> Karl Schmidt
> Vice President, Environmental Affairs
> Johnson & Johnson

Performance Measurement

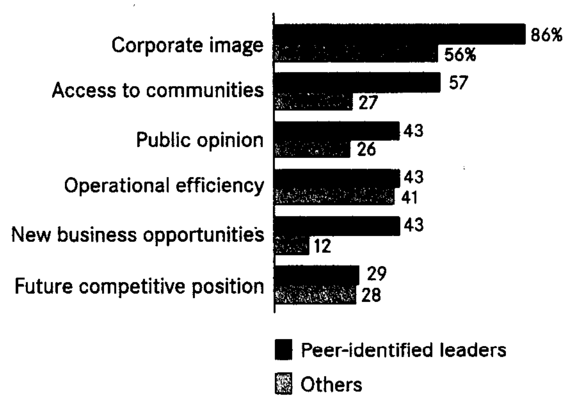
As noted earlier, performance measurement is currently the most highly developed element of most environmental management systems. There were no statistically significant differences in results between the peer-identified leaders and the other organizations.

The Bottom Line: The Value of an Environmental Management System

Beyond operational compliance and risk management, and until such a time as the value of an EMS can be measured in hard currency against a framework of sustainability, environmental management systems continue to also add value in the areas of improved corporate image, public opinion, and access to communities (see Chart 9). If progress over the past decade is an indication of the rate of development and emphasis on corporate environmental governance, then the next decade is likely to see continuous progress toward an integrated management system and triple bottom line governance that will make commonplace tomorrow what leading companies are striving toward today.

> "Despite the fact that it was never our expectation, Ford is seeing tangible cost-reduction benefits of our EMS."
>
> John Connor
> Principal, Environmental Control Engineer
> Ford Motor Company

Chart 9
Beyond Compliance, How Does Effective Environmental Governance Add Value?



Percent of respondents reporting a "high" value-added return

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Bristol-Myers Squibb
Brown & Williamson Tobacco Corporation
Cargill
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FTSE4Good Inclusion Criteria

For inclusion in the FTSE4Good Index Series, companies must be constituents of one of the starting universes: FTSE-All Share Index (UK), FTSE Developed Europe Index, FTSE US Index, and FTSE Developed Index (Global).

Companies in the starting universe need to satisfy criteria based on three principles:

- Working towards **environmental sustainability**
- Developing positive relationships with **stakeholders**
- Up-holding and supporting universal **human rights**

Excluded companies

Companies that have been identified as having business interests in the following industries are excluded from FTSE4Good Index Series:

- Tobacco Producers
- Companies manufacturing either parts for, or whole, nuclear weapons systems
- Companies manufacturing whole weapons systems
- Owners or operators of nuclear power stations
- Companies involved in the extraction or processing of uranium.

Environmental Criteria

Companies are assigned a high, medium or low impact weighting according to their industry sector. The higher the environmental impact of the company's operations, the more stringent the criteria it needs to meet to be included in the index.

Note: the business sectors indicated above are determined and classified by EIRIS. For more information on these classifications go to www.eiris.org.

High impact sectors	Medium impact sectors	Low impact sectors
Agriculture Air transport Airports Building materials (includes quarrying) Chemicals and Pharmaceuticals Construction Major systems engineering Fast Food Chains Food, beverages and tobacco Forestry and paper Mining & metals Oil and gas Power generation Road distribution and shipping Supermarkets Vehicle Manufacture Waste Water Pest Control	DIY & Building Supplies Electronic and Electrical equipment Energy and Fuel Distribution Engineering and machinery Financials not elsewhere classified Hotels, catering and facilities management Manufacturers not elsewhere classified Ports Printing & Newspaper Publishing Property developers Retailers not elsewhere classified Vehicle Hire Public transport	Information Technology Media Consumer / mortgage finance Property Investors Research & Development Leisure not elsewhere classified (gyms and gaming) Support Services Telecoms Wholesale distribution

What do companies need to do in order to meet the environmental criteria?

	High impact companies	Medium impact companies	Low impact companies
Policy	Policy must cover the whole group and either meets all five core indicators plus at least one desirable indicator, or four core plus two desirable indicators.	Policy must cover the whole Group and meet at least four indicators, at least three of which must be core.	Companies must have published a policy statement including at least one commitment indicator.
Management	If environmental management systems (EMS) are applied to between one and two-thirds of company activities, all six indicators must be met, and targets must be quantified. If EMS are applied to more than two-thirds of company activities, the company must meet at least five of the indicators, one of which must be documented objectives and targets in all key areas. ISO certification and EMAS registrations are considered to meet all six indicators and are assessed on that basis.	EMS must cover at least one third of the company and meet at least four indicators. If less than one third coverage, must have six indicators, including quantitative objectives and targets. ISO14001 certified or EMAS registered systems are considered to meet all six indicators.	No requirement
Reporting	Report must have been published within the last three years, cover the whole group, and meet at least three of the four indicators. Corporate reports which do not cover the entire global operations of the listed company must meet all four core indicators, or three core indicators together with two desirable indicators.	No requirement	No requirement

What are the criteria indicators?

	Core Indicators	Desirable Indicators
Policy	• Policy refers to all key issues • Responsibility for policy at board or department level • Commitment to use of targets • Commitment to monitoring and audit • Commitment to public reporting	• Globally applicable corporate standards • Commitment to stakeholder involvement • Policy addresses product or service impact • Strategic moves towards sustainability
Management	• Presence of environmental policy • Identification of significant impacts • Documented objectives and targets in key areas • Outline of processes and responsibilities, manuals, action plans, procedures • Internal audits against the requirements of the system (not limited to legal compliance) • Internal reporting and management review	
	Core Indicators	**Desirable Indicators**
Reporting	• Text of environmental policy • Description of main impacts • Quantitative data • Performance measured against targets	• Outline of a EMS • Non-compliance, prosecution, fines, accidents • Financial dimensions • Independent verification • Shakeholder dialogue • Coverage of sustainability issues

When do companies have to meet the environmental criteria requirements?

Company deadline	Low Impact Company Requirements	Medium Impact Company Requirements	High Impact Company Requirements
1st Aug 03	No requirement	Basic policy (to low impact requirement)	Meet medium impact policy/ EMS requirements
1st Feb 04	No requirement	Policy proper	Meet all requirements
1st Aug 04	No requirement	EMS	
1st Feb 05	Policy requirement		

New entrants to the FTSE4Good Index Series

Companies wishing to be added to the FTSE4Good Index Series will need to meet all the new criteria for their impact category.

Social & Stakeholder Criteria

What do companies have to do to meet the Social & Stakeholder criteria?

To qualify for inclusion, companies must be disclosing information that meets at least two of the seven indicators below either globally or in their home operating country.

	Indicators
Policy	Adopting an equal opportunities policy and/or including a commitment to equal opportunities or diversity in their annual report or web-site
Policy	Adopting a Code of Ethics or Business Principles
Management	Providing evidence of equal opportunities systems including one or more of: monitoring of the policy and workforce composition; flexible working arrangements and family benefits (meaning at least three of flexible working time, child care support, job sharing, career breaks, or maternity or paternity pay beyond the legal requirements) or more than 10% of managers being women or the proportion of managers who are women or from ethnic minorities exceeding two fifths of their representation in the workforce concerned.
Management	Providing evidence of health and safety systems including one or more of: awards, details of health and safety training or published accidents rates.
Management	Providing evidence of training and employee development systems including one or more of: annual training reviews for staff (more than 25% of those staff where figures are available) or providing significant data on time and money spent on training.
Management	Providing evidence of systems to maintain good employee relations including union recognition agreements or other consultative arrangements (covering more than 25% of staff where figures are available).
Practice / Performance	Making charitable donations in excess of £50,000; operating payroll giving schemes; providing gifts in kind or staff secondments to community schemes or assigning responsibility for charitable donations or community relations to a senior manager

To warrant inclusion in the indices, companies must not have breached the infant formula manufacturing section of the International Code on Marketing of Breast Milk Substitutes according to the International Baby Food Action Network.

Human Rights Criteria

On April 10th 2003 FTSE announced changes to the FTSE4Good Index Series selection criteria relating to up-holding and supporting universal human rights. The new criteria outlined below were formed on the basis of a broad public human rights consultation during 2002. This involved taking into account almost 200 responses from corporations, fund managers, non-government organisations and private investors.

In the same way as for the new environmental criteria companies have been divided into groups according to their potential impact. The higher the potential human rights impact of the company's operations, the more stringent the criteria it needs to meet to be included in the index. Companies currently have been divided into three groups:

i. Global Resource Sector

The group of companies identified as potentially having the highest human rights impact are companies in the global resource sector (oil, gas and mining). This sector is defined more specifically in the relevant section below. The FTSE4Good advisory committee proposes to extend the higher requirements over time to other sectors; such as Textiles and Apparels, Pharmaceuticals, Chemicals, Agriculture, Banking and Finance. Detail on the criteria and implementation timetable are given below.

ii. Significant Involvement in Countries of Concern
Companies with significant involvement in countries with the greatest human rights concern have been identified as potentially having a significant impact although in general having a lower human rights impact than the global resource sector. Therefore these companies are required to meet an intermediate level of criteria. Detail on the criteria and implementation timetable are given below.

iii. All other companies
In recognition that human rights issues are relevant to all companies every constituent must demonstrate at least a basic policy in relation to either equal opportunities or freedom of association. No deadlines have been set for these criteria but the advisory committee will decide on the date when they meet in March 2004.

New entrants to the index
Companies wishing to be added to the FTSE4Good index series will need to meet the new criteria according to the same deadlines as the current constituents.

Definitions

Global Resource Sector is defined as companies with global involvement in oil & gas and mining including upstream operations.

Global is defined as operations that extend to non-OECD countries

Upstream operations are exploration and production that includes companies such as rig operators and contract drillers.

Downstream operations include refining, marketing and selling and are not included for these criteria.

What are the human rights criteria for the Global Resource Sector?

Policy Criteria for the Global Resource Sector	
New Criteria	**Details**
Public Policy	The company has published policies covering human rights issues that are clearly communicated globally (in local languages where appropriate).
Board Responsibility	The strategic responsibility for the human rights policy/ies rests with one or more Board members or senior managers who reports directly to the CEO
ILO core labour standards Or **UN Global Compact / SA8000 / OECD Guidelines**	A statement of commitment to respect all the ILO core labour standards globally. The core conventions relate to: equal opportunities, freedom of association/ collective bargaining, forced labour and child labour. Alternatively signatories to the UN Global Compact or SA8000, or whose policy states support for the OECD Guidelines for Multi-national Enterprises are considered to meet this requirement.
UDHR	A clear statement of support for the Universal Declaration of Human Rights.
Guidelines on armed security guards	Guidelines governing the use of armed security guards based on UN Basic principles on the Use of Force and Firearms by Law Enforcement Officials or the Code of Conduct for Law Enforcement Officials. Alternatively signatories to the Voluntary Principles on Security and Human Rights meet this requirement.
Indigenous people	A stated commitment to respecting indigenous peoples' rights

Management Systems Criteria For the Global Resource Sector	
New Criteria	**Details**
Implementing policy criteria and monitoring	Monitoring the implementation of its human rights policy including the existence of procedures to remedy any non-compliance.
Employee Human Rights training	Training for employees globally in its human rights policy
Stakeholder consultation	Consulting with independent local stakeholders in the countries of concern
Human Rights Impact Assessment	Evidence of a human rights impact assessment which includes the company identifying the major human rights issues it faces and integrating human rights concerns into its risk assessment procedures

Reporting Criteria For the Global Resource Sector	
New Criteria	**Details**
Produce a human rights report	Reporting on the human rights policy and performance to the public in a published format
Cover policies and management systems	As a minimum covering policies and management systems

What are the human rights criteria for companies with a significant presence in countries of human rights concern?

Definitions

Significant presence is defined as having 1000+ employees or GBP100m in turnover or assets in these countries through a 20%+ equity stake in subsidiaries or associates incorporated there.

Countries of concern The list is drawn up and reviewed each year by EIRIS in the light of human rights developments using a variety of sources. EIRIS uses the latest Freedom House list of 'not free' countries to identify those with significant levels of corporate investment and then amends that list in the light of further information including the annual reports from Human Rights Watch and Amnesty International.

List of countries of concern adopted March 2003 by the FTSE4Good Advisory Committee

Afghanistan	Egypt	Saudi Arabia
Algeria	Iran	Somalia
Angola	Iraq	Sudan
Brunei	Kazakhstan	Syria
Burma	Libya	Tunisia
Cameroon	North Korea	United Arab Emirates
China	Oman	Vietnam
Colombia	Pakistan	Yemen
Democratic Republic of Congo	Rwanda	Zimbabwe

Human Rights Policy Criteria for Companies in Countries of Concern	
New Criteria	**Details**
ILO core labour standards Or **UN Global Compact / SA8000 / OECD Guidelines**	A public statement of commitment to respect all the ILO core labour standards globally. The core conventions relate to: equal opportunities, freedom of association/ collective bargaining, forced labour and child labour. Alternatively signatories to the UN Global Compact or SA8000, or whose policy states support for the OECD Guidelines for Multi-national Enterprises are considered to meet this requirement.
Board Responsibility Or **UDHR** Or **Global H. Rights Communication**	The strategic responsibility for the human rights policy/ies rests with one or more Board members or senior managers who reports directly to the CEO. Alternatively a clear statement of support for the Universal Declaration of Human Rights. Or communication of the human rights policy to employees globally.

The company must **meet at least two** of the following four criteria:

Human Rights Management Systems Criteria for Companies in Countries of Concern	
New Criteria	**Details**
Implementing policy criteria and monitoring	Monitoring the implementation of its human rights policy including the existence of procedures to remedy any non-compliance
Employee Human Rights training	Training for employees globally in its human rights policy
Stakeholder consultation	Consulting with independent local stakeholders in the countries of concern
Human Rights Impact Assessment	Evidence of a human rights impact assessment which includes the company identifying the major human rights issues it faces and integrating human rights concerns into its risk assessment procedures

ACCA 2003
KEEPING UP WITH SOCIAL REPSPONSIBILITY

Pat Goughan, Corporate Counsel
Hewlett-Packard Company

1.0 SOCIALLY RESPONSIBLE INVESTING (SRI)

- According to a well known website for SRI, http://www.socialfunds.com, socially responsible investing is "the act of making investment decisions to achieve social as well as a financial return." Strategies of socially responsible investing include "screening, community investing, and shareholder activism."

- Screening is the concept behind socially responsible investment indices, as well as the many socially responsible investment funds and other financial products that are either based on these indexes or use them in evaluating and selecting the companies to include in an investment product or portfolio.

- Many believe that socially screened companies over the long term will perform as well as or better than the market generally. The increased attention of investors and the investment community on corporate governance leads others to suggest that social responsibility screens will increasingly become a mainstream tool of financial analysts and a threshold requirement for individual investors.

- More recently, the focus on corporate governance has led to the development of rating and screening tools devoted solely to criteria designed to address corporate governance and ethics. Proponents of these tools suggest that companies that have strong corporate governance and transparency, like those that are recognized for social responsibility, will over the long term will experience solid financial performance and returns to their investors, and enjoy a lower cost of capital.

2.0 SOCIALLY RESPONSIBLE INVESTMENT INDICES

2.1 Generally: Closely allied to socially responsible investment funds, are indexes that purport to track and evaluate companies along defined social responsibility criteria and parameters. Typically, these indices "list" the selected companies that meet the criteria of the index publishers. Financial products based on these indexes may be available; however, the indexes and supplemental research information also may be used by portfolio managers and individual investors interested in investing in companies screened according to CSR criteria. Similarly, apart from a formal index or list, research firms may rate and issue reports on selected companies according to defined social responsibility investment criteria.

2.2 **Domini 400 Social^{SM} Index:** Started in 1990. A listing of 400 firms drawn primarily from the S&P 500 and other large capitalization firms, excluding companies in alcohol, tobacco, gambling, military contracting, nuclear power or adult entertainment. Firms are screened according to specified criteria for community, corporate governance, diversity, employee relations, environment and product safety.

For further information, see**:** http://www.kld.com

2.3 **Dow Jones Sustainability Indexes:** Started in 1999. Lists the top 10% (by number)/20% (by market capitalization) of leading sustainability companies in 59 defined industry groups. Drawn from ~2500 Dow Jones listed companies worldwide. Based on research assessments conducted by SAM group, according to defined and weighted criteria in economic, environmental and social arenas. PWC verifies that these assessments are completed in accordance with DJSI defined rules. Assessments in turn rely questionnaires to companies as well third party documents and sources. Yearly review.

For further information, see: http://www.sustainability-indexes.com

2.4 **FTSE 4 Good Indexes:** Started in 2001. Includes companies drawn from FTSE indexes; firms in tobacco, nuclear and weapons industries ineligible. Screening criteria are specified in areas of environmental sustainability; social issues and stakeholder relations and human rights. Based on research assessments conducted by Ethical Investment Reseach Service (EIRIS) under direction of FTSE 4 Good investment committee. All companies that satisfy the criteria are entered into the index. Currently over 500. Top companies culled for: FTSE4GoodGlobal100 and subsidiary indexes for U.S. and U.K. Semi-annual review.

For further information, see http://www.ftse.com

2.5 **Others:** Other major stock market indices have separate listings of companies screened for corporate social responsibility criteria. For example, KLD Research and Analytics, Inc, the firm that supports the Domini 400 Social^{SM} Index, also publishes a screened subset of the Russell 3000 ® Index. (See http://www. kld.com.) For companies traded on the Toronto stock exchange, there is the Jantzi Social Index®. (See: http://www.mjra-jsi.com)

Apart from a defined index, many research firms will rate or evaluate firms according to defined social responsibility criteria. See, e.g.

Innovest's EcoValue21® ratings and Intangible Value Assessments (IVA™) (Examples of company specific ratings reports are available at http://www.innovestgroup.com)

2.6 Corporate Governance Ratings

Aspects of corporate governance may form some part of the criteria employed by socially responsible indexes or research firms seeking to evaluate companies for socially responsible investment. However, separate corporate governance ratings have also begun to appear. These tend to focus on issues of corporate financial disclosure and transparency, as well as ownership and board structure and shareholder rights and relations. Among these are:

- Standard and Poor's Corporate Governance Scores (See: Standard & Poor's Corporate Governance Scores, Criteria Methodology and Definitions, July 2002, at http:// www2.standardandpoors.com
- Governance Metrics International (GMI) corporate governance ratings (See examples of sample reports and description of rating process at http://www.gmiratings.com
- Institutional Shareholder Services (ISS) Corporate Governance Quotient (CGQ) (See rating criteria at: http://www.isscgq.com/Rating Criteria.htm

ACCA 2003

Session #807
Keeping up with Social Responsibility – A Primer on Standards, Surveys and Investment Guidelines

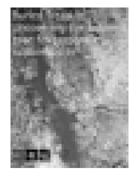
Dave Stangis
Director, Corporate Responsibility
Intel Corporation

What are We Talking About?

- CSR, Sustainability, Corporate Responsibility, Triple Bottom Line…..
- Some Definitions:
  - Business for Social Responsibility defines CSR as "achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment."
  - SustainAbility defines the Triple Bottom Line as "a framework for measuring and reporting corporate performance against economic, social and environmental parameters."
  - The World Business Council for Sustainable Development defines Sustainable Development as "as forms of progress that meet the needs of the present without compromising the ability of future generations to meet their needs."

SustainAbility

- www.sustainability.com
- What is Sustainable Development
- What is Triple Bottom Line
- A Review of Corporate Sustainability Reporting
- The Business Case for Sustainability



Business for Social Responsibility

- www.bsr.org
- Overview of CSR
  - Importance, Developments, Standards, Steps, Examples, Policies, Awards and Resources.
  - Issue briefs, News summaries
- Annual conference – Fall
- Many corporate members

Business for Social Responsibility

Standards (guidelines) of Practice

- Accountability AA1000 Series
  - http://www.accountability.org.uk
- The Global Reporting Initiative
  - http://www.globalreporting.org
- Social Accountability 8000
  - http://www.sa-intl.org
- UN Global Compact
  - http://www.unglobalcompact.org
- Organisation for Economic Cooperation and Development (OECD) Guidelines
  - http://www.oecd.org
- CERES
  - http://www.ceres.org/
- Many, many more
  - Global Sullivan Principles, ICCR Principles, Caux Roundtable

Investor Interest/Criteria

- Socially Responsible Investors (SRI)
- SRI World Group www.sriworld.com
  - www.SocialFunds.com
  - www.CSRWire.com
  - www.SRINews.com
  - www.Shareowner.com
- Social Investment Forum – www.socialinvest.org
  - News and general resources
- Firm/Group Specific Info – screens, holdings, etc.
  - http://www.kld.com/, http://www.domini.com/, http://www.iccr.org/, http://www.calvertgroup.com/, http://www.trilliuminvest.com/, http://www.isisam.com/, http://www.waldenassetmgmt.com/

Investor Surveys/Questionnaires

- Dow Jones Sustainability Indexes
  - http://www.sustainability-index.com
- FTSE4Good
  - http://www.ftse.com/
- Ethical Investment Research Service
  - http://www.eiris.org/
- Investor Responsibility Research Center
  - http://www.irrc.org/
- Innovest
  - http://www.innovestgroup.com/
- Others
  - KLD, Oekom, Ethibel, Swiss Raiffeisen Banks, BITC, Storebrand, etc.

New Focus on Governance

- The Race to New Company Governance Ratings
- Institutional Shareholder Services – ISS
  - Corporate Governance Quotient – CGQ
  - http://www.isscgq.com/
- GovernanceMetrics International
  - http://www.gmiratings.com/
- The Corporate Library
  - http://www.thecorporatelibrary.com/
- Others
  - Moody's, S&P, CoreRatings, IRRC