Mind The Gap - An Assessment of Existing CSR Indices

REPORT SUMMARY

Prepared by: Stuart Blofeld &
James Fisher

July 2009

BRE Sustainable Communities
Team

Executive Summary

This report presents the outcomes of a comparative study and analysis of 12 CSR schemes including amongst them the AccountAbility Rating, Dow Jones Sustainability Index, FTSE4Good Index, GRI's Sustainability Reporting Framework, and SA8000 standard. The purpose of this study is to inform the potential development of a new sustainability indices, which would apply the learning gained through this research. This learning is presented in two main chapters of this report; the CSR Matrix, and CSR Model.

The research found that the scope of the schemes researched are wide-ranging and diverse, with different intended applications and target audiences.

The scheme types varied from investment-based sustainability indices such as the FTSE4Good, and Dow Jones Sustainability Index which specifically target the investment community, whilst other schemes like the Business in the Community CR Index are aimed at the organisations themselves to help record progress, benchmark performance against others, and identify areas for improvement in managing their corporate social responsibility.

Other scheme types included sustainability reporting frameworks (AA1000 Assurance Standard and GRI Reporting Framework), management standards (Green Globe Company Standard and ISO 14001), and CSR guidelines or principles such as the UN Global Compact. What was interesting from the research undertaken regarding scheme type is that only one scheme could be described as a performance standard, setting minimum performance levels that any organisation seeking certification against the standard must meet.

The verification methods employed by the schemes varied considerably from those that require self-declaration at one end of the spectrum to those that require third-party certification at the other. The majority of schemes researched sat somewhere between these two methods favouring a combination of different methods including self-assessment and second-party assessment.

What was evident from the data collection techniques explored is that few schemes especially the sustainability indices use any kind of primary monitoring or auditing of companies practices as a means to assessing an organisation's sustainability performance or ranking. To compensate for this lack of first-hand information, scheme operators gathered company information using multiple methods and sources to provide a better chance of balance.

With regard to the scope of those schemes researched common areas of convergence and/or areas felt to lie at the heart of the schemes were identified. As a result 10 core areas were identified that can be described as forming a fundamental part of the schemes in question. These are listed below and formed a focus of the CSR Matrix which compares and contrasts the different schemes across these ten areas. The number in brackets represents the number of schemes that incorporates this element into their scheme criteria.

- Human rights/labour standards **(9 out of 12)**
- Environment performance **(10)**
- Financial performance **(6)**
- Health and safety **(5)**
- Environmental management systems **(7)**
- Regulatory compliance **(6)**
- Minimum performance levels **(3)**
- Supply chain involvement **(4)**
- Corporate Governance **(6)**
- Stakeholder engagement **(7)**

Taking account of an organisation's environmental performance for example was the most common element across the schemes researched. However closer examination of the schemes assessment criteria revealed that often the requirements in relation to environmental performance tended to focus on little more than the implementation of an environmental management system, as outlined in the ISO14001 standard.

Whilst this approach seems eminently sensible [why reinvent the wheel when there already exists a recognised international standard] one needs to understand the limitations of standards such as ISO14001 if they are incorporated into major indices as a means of assuring an organisation's environmental credentials. In short the presence of an EMS can not guarantee improved environmental performance, and therefore it is questionable if an EMS should be used as a key determinant in assessing an organisation's environmental credentials.

Another observation from the research conducted is that for organisations even to be considered on the major sustainability indices they must be amongst the top 500 companies in the world by value. The reason for this is that these investment-based indices are specifically targeted at the investment community to manage their sustainability portfolios. However even those schemes that are not traditional investment indices such as the AccountAbility Rating and Business in the Community CR Index seek participation in their schemes by inviting companies listed on economic indices such as the Global 500 or FTSE350.

Therefore it is believed that a gap exists in the market for a sustainability index which does not primarily target the investment community, or base participation on traditional financial metrics and instead focuses more fully on social and environmental performance of organisations rather than their balance sheet.

One other area identified through this research is the large absence of minimum performance criteria in the scheme requirements. Only three schemes researched contained what could be loosely described as minimum performance requirements, and this didn't include any of the major sustainability indices that we are particularly interested in.

Beyond excluding certain industry sectors such as nuclear energy, arms or tobacco sectors, the sustainability indices researched do not set a minimum performance level that all organisations must achieve to be listed on the indices. It could be viewed that the minimum performance level in these indices is self-setting by the very fact that the lowest ranked organisation featuring in a particular index will effectively set the minimum performance level. And over time the minimum performance level will increase as organisations overall performance and awareness of sustainability improves.

The problem with this approach is that there is little transparency over what such a ranking means in terms of a company's sustainability performance, i.e. what is the organisation actively doing to reduce its total impact. Instead they focus on a company's environmental and social reporting rather than measurable performance improvement.